S. Hrg. 103–952

COMPETITIVENESS OF THE U.S. AUTO INDUSTRY

HEARING

BEFORE THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION UNITED STATES SENATE

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

MARCH 10, 1993

Printed for the use of the Committee on Commerce, Science, and Transportation

U.S. GOVERNMENT PRINTING OFFICE

65–745 CC WASHINGTON : 1995

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-046735-7

183

S. Hrg. 103–952

COMPETITIVENESS OF THE U.S. AUTO INDUSTRY

HEARING

BEFORE THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION UNITED STATES SENATE

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

MARCH 10, 1993

Printed for the use of the Committee on Commerce, Science, and Transportation

U.S. GOVERNMENT PRINTING OFFICE

65–745 CC WASHINGTON : 1995

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-046735-7

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION

ERNEST F. HOLLINGS, South Carolina, *Chairman*

DANIEL K. INOUYE, Hawaii
WENDELL H. FORD, Kentucky
J. JAMES EXON, Nebraska
JOHN D. ROCKEFELLER IV, West Virginia
JOHN F. KERRY, Massachusetts
JOHN B. BREAUX, Louisiana
RICHARD H. BRYAN, Nevada
CHARLES S. ROBB, Virginia
BYRON L. DORGAN, North Dakota
BOB KRUEGER, Texas

JOHN C. DANFORTH, Missouri
BOB PACKWOOD, Oregon
LARRY PRESSLER, South Dakota
TED STEVENS, Alaska
JOHN McCAIN, Arizona
CONRAD BURNS, Montana
SLADE GORTON, Washington
TRENT LOTT, Mississippi
JUDD GREGG, New Hampshire

KEVIN G. CURTIN, *Chief Counsel and Staff Director*
JONATHAN CHAMBERS, *Republican Staff Director*

C O N T E N T S

List of Witnesses

COMPETITIVENESS OF THE U.S. AUTO INDUSTRY

WEDNESDAY, MARCH 10, 1993

U.S. SENATE,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
Washington, DC.

The committee met, pursuant to notice, at 10 a.m. in room SR–253, Russell Senate Office Building, Hon. Ernest F. Hollings (chairman of the committee) presiding.

Staff members assigned to this hearing: Ivan A. Schlager, staff counsel; and Kevin M. Dempsey, minority staff counsel.

OPENING STATEMENT OF SENATOR HOLLINGS

The CHAIRMAN. The committee will come to order. It is fashionable these days to talk about revitalizing the economy by development of a business-government relationship that promotes and fosters the development of so-called critical technologies, in order to create a high-wage workforce. I agree that Government can play a crucial role in developing technology and fostering manufacturing technologies, and that is why I introduced S. 4, the National Competitiveness Act.

But there is more to the economy than Silicon Valley and Boeing. The fact is we have a high-wage, high-value-added job base in the basic manufacturing sector, and particularly in automobiles. It is time we acknowledged this fact. Our competitors certainly do. The German and Japanese are successful economies in which 30 percent of the workforce is involved in basic manufacturing, while we practically are down to one-half that percent. Manufacturing in this country is high technology.

Go to Baldrige award winning Milliken Mills and you will see computer-controlled air-jet looms. Go to Highland Park, MI, to the new Chrysler Technology Center, and you will realize that these so-called sunset industries area high-technology manufacturers prepared for the economic competition of the 21st century.

I called this hearing because in the past several years the American automobile industry has taken a pounding in the press merely because they contemplated exercising their rights under our trade laws. Editorial writers around the country raised siren calls of protectionism and smugly proclaimed that the American auto industry's problems were its own fault and that American industry simply cannot compete in the global marketplace.

Of course, nothing is further from the truth. In the past 5 years the American automobile industry has dramatically improved the quality of its products, increased its productivity, and increased its

capital spending. The American automobile industry has clawed its way back. The Ford Taurus is the country's best selling car. Chrysler's cab-forward LH models have revolutionized automobile design and GM's Saturn is challenging Japanese compacts head on in quality, value, and customer satisfaction.

Well in automobiles, textiles, microprocessors, you name it, American industry has been competitive. What has not been competitive is the U.S. Government. For 45 years globetrotting Government officials went around the world handing out portions of our market in order to maintain the Western alliance. To paraphrase Red Polling, we exported free trade while they exported cars.

But the end of the cold war means that we no longer have to subordinate our own economic interests. It is not inevitable that the American industrial base wither away, not if our Government gets competitive and develops a coherent trade and competitive policy that creates an environment for American industry to thrive, not if we punish the predatory trade practices that threaten our job base.

The American worker is the most productive in the world. It is time that he had or she had an American Government that is as competitive as the American worker.

I welcome the testimony of this distinguished panel that we have today. We have got competition up at the Budget Committee—and remind me to tell them so I will not miss a vote. They are voting up there, but we are marking up the budget at the Budget Committee.

And we have got the Federal Reserve folks at Banking for the first time, these Governors that you never see. I think they want to see them, so that is why some of our colleagues have not gotten along here.

But I want to welcome this distinguished panel. Mr. Robert A. Lutz, the president and chief operating officer at Chrysler. William E. Hoglund, executive vice president of corporate affairs of General Motors, and Peter J. Pestillo, the executive vice president of corporate relations of Ford.

Gentlemen, we appreciate your appearance here this morning and let me hear from Mr. Lutz first.

STATEMENT OF ROBERT A. LUTZ, PRESIDENT AND CHIEF OPERATING OFFICER, CHRYSLER CORP., HIGHLAND PARK, MI

Mr. LUTZ. Mr. Chairman and members of the committee, I want to thank you for the privilege of appearing before you today.

I am here along with my colleagues from General Motors and Ford with some good news about the American automobile industry. For the past decade or more you have heard a lot of bad news: declining market share, plant closings, lost jobs, and during the recent recession some really arterial bleeding of red ink. Connect all those dots and it is easy to get a picture of an industry that has lost its competitiveness.

But that is just a one-dimensional sketch. We are going to paint between those lines this morning and show you a different picture. We are going to describe an industry that has taken some bold and painful steps to get itself in shape to compete. And more may yet

be necessary, but we are ready to step into the ring with anybody in the world; all we ask for is a fair fight.

At Chrysler, getting in shape involved spending cuts, investment, and reinvention, three terms not familiar to any of you in this town right now. We came to you for help in 1980 and we got it. We paid off our loan guarantees 7 years early. We created a whole new segment with the minivan. We rebuilt our plants. Our quality got better. But by 1989, we realized that evolution was too slow; we needed a revolution to survive.

We began with a massive costcutting program. We can now count $4 billion in annual savings. As I said, it was painful. We lost almost 17 percent of our white collar workforce, in fact over 30 percent from the high point in 1989 or in 1987.

But as we were cutting, we were also investing. Our product spending plan was sacred. We knew that none of our sacrifices made sense if, in the end, we did not have world-class products. We also spent $1 billion to open a world class technical center that some people say could have waited, and we spent another billion to open a world class assembly plant in inner city Detroit that some people said should have been built somewhere else at less cost.

As we were cutting and investing, we were also reinventing our company. We gutted our organization. We tore down all the bureaucratic walls built up since 1925. We created cross functional platform teams where designers, engineers, purchasing people, suppliers, manufacturing people, marketing specialists, finance people, and others all worked together from the very beginning to take a vehicle from concept to customer.

And they now do it faster and at higher quality levels than ever before and the results have been dramatic. Our minivans, our new Grand Cherokee, and our new LH sedans are all sold out. And we just finished a successful stock offering that brought almost $2 billion in new capital into the company. By the way, we have already put one-half of that money into our pension fund. And by the end of the year, we hope to further reduce our unfunded pension liability.

Ford and GM have their own strong stories to tell and I will let them do it. None of us have been stopping to smell the flowers in the past few years. As you may know, the three of us do not pat each other on the back very often. We usually try to beat each others' heads in, and that kind of competition is healthy. But what is even healthier is that the big three have taken on the foreign companies in this market, frankly, sometimes against some very tall odds, and we are beginning to gain.

Let me show you how. First, heavy investment in good times and bad. Even in the good times before the recession, capital spending by the big three was way above net income. And when that income went negative, the spending actually went up. This is a terrifying chart if you are a businessman, but the domestic companies were not scared off by the red ink. We kept pouring more and more money into our businesses because that is what we had to do to compete. Total capital spending for the big three was more than $61.3 billion from 1989 to 1992, but our net income was only $2.4 billion, and that is a 26-to-1 ratio.

Chart No. 2, this chart shows just Chrysler's spending, and remember, we are the smallest of the big three. $12.5 billion from 1986 to 1990, $16.4 billion from 1991 to 1995, and we have just revised our 5-year plan to $17.5 billion between 1993 and 1997. Just to give you an idea of that commitment, $17.5 billion is more than twice as much as Chrysler has made in net profits in its entire 67-year history.

Chart No. 3, second, we improve quality. The red line on the bottom represents the imports, the blue line on the top the big three. There was a big gap in 1985, but today it is almost gone. That little space remaining represents one-third of a defect per car per year. For all practical purposes, there simply is no quality gap anymore.

Third, we increased productivity. In 1979 in took 5.1 workers per day to produce a vehicle, 4 years ago is was 4.3, today it takes only 3.8.

And fourth, we have held price increases significantly below inflation. Since the voluntary restraint agreement with Japan in April 1981, big three prices have gone up a total of 44 percent, the CPI has grown by 60 percent, and the Japanese have increased prices by 80 percent. And, by the way, those are the facts in spite of some the erroneous reports to the effect that we have been following Japanese prices upward.

Fifth, we have made cars safer. It was the big three that first put in airbags in any significant volume, and I am proud to say that Chrysler was the first to put them in all U.S.-made cars, but GM and Ford were not far behind. The Japanese are just now catching up.

Along with antilock brakes, integrated child seats, and other safety innovations, we have helped make the United States the safety leader among the major industrialized nations. The chart you see, by the way, is from 1989, the last year for which we have comparative figures. Actually, the U.S. number is now down from 2.3 deaths per 100 million vehicle miles to just 1.8.

Sixth, we have made our products more environmentally friendly. It takes a longer view to really get the picture. This slide shows that we have reduced emissions by more than 90 percent since 1967. Frankly, I did not know this until I picked it up from the Detroit News a week ago, but a reporter who has been covering our industry for years pointed out that a family car today emits fewer pollutants driving down the highway at 55 miles an hour than a typical new vehicle 30 years ago did parked in the driveway with the engine off.

Now, these are just the highlights. To really get a feel for what the big three have done to make themselves more competitive you have to come to Detroit, visit our plants and our research facilities, talk to our people, and see the technology first hand. Our doors are always open and we invite all of you to come.

I am sure you know as well as I do, however, that competitiveness involves more than one company or one industry turning out better products. It is more than good management and motivated workers. It used to be that simple, but it is not anymore. We live in a global economy where it is not just companies that compete, but countries, and the policies that a country creates are as impor-

tant to the overall competitiveness of its economy as all the innovativeness and hard work of its citizens.

To cite just one example, our tax laws hurt us. Our major trading partners impose VAT taxes on autos and other products. Those taxes are imposed on imports to their countries but forgiven on exports, thus making their products more competitive in the world market. If we send a vehicle to Europe it not only has a full U.S. tax load in it, but on top of it it gets the European VAT added on top.

I am proud of what my industry has done and I think we deserve even more credit because we have been rebuilding our companies at the same time we have also been competing with foreign companies whose governments' policies have given them big advantages over us.

Where our competitiveness depends on our own actions, we are getting the job down. Where it depends on public policies, Government has a major role to play. Mr. Hoglund and Mr. Pestillo will be discussing some of these policies.

I am going to mention just one, the way we choose to pay for health care in this country. We do not choose, like everyone else in the world, to spread those costs broadly over the whole population base. Instead, we have an erratic assortment of public and private programs that have allowed costs to go wildly out of control while leaving substantial numbers of Americans without any coverage at all.

Our costs are driven up not only by inefficiencies within the health care system itself, but also by our legal system. Lawyers, working for contingency fees, have our doctors practicing defensive medicine.

Now, I am here to talk about competitiveness, so I will limit my comments to how these costs affect my company and my industry. Our industry is the largest manufacturing employer in the country. We are a mature industry. Our workforce is older and we have almost as many retirees as we do active workers. We provide good health care coverage to all of those workers and retirees. We are an industry that must compete every day with companies around the world whose health care costs are a fraction of ours.

We get hit from two directions. I invite your attention to the chart. First, the United States has, by far, the highest health care costs in the world, so the neighborhood is expensive. Here are per capita health care costs for four major car-producing countries. For the United States, it is $2,566; for Canada, $1,770; for Germany, $1,486; and for Japan it's only $1,171. So as a nation, we pay substantially more than other major countries for our health care, and that will always put our auto industry at a big disadvantage in the global market.

Second: however, because we are a large employer, we carry a disproportionate part of the costs. We have Robin Hood medicine in this country, we all know that. Cost shifting is part of the game and the burden lands squarely onto the shoulders of manufacturing companies like Ford, GM, and Chrysler.

According to research by the National Association of Manufacturers, about 28 percent of the health care costs paid by companies like ours are not our costs. They are shifted to us by other employ-

ers who do no provide coverage to their employees, by Government that underpays Medicare and Medicaid costs, and by people who simply cannot afford to pay for their own health care.

And this is the impact on us. These are University of Michigan figures. They show health care costs adding $1,086 to the cost of a domestic car, $552 to the cost of a Japanese import, and $475 to the cost of a Japanese car assembled in the United States. So, we have a $500-per-unit disadvantage against the imports, and a $600-per-unit burden against the transplants.

Now, to put that in perspective, only four times in our company's history have we ever made an average of $500 profit per car. We have teams working every day trying to take $1 or $2 out of the cost of a vehicle, because the competition is that intense. A $500 or $600 gap due to something we cannot control is a major competitive problem.

You may wonder why the disadvantage is even greater with the foreign transplants assembled in this country under our health care system than it is with imports. Well, it is because they are all new, their workforces are 13 years younger than ours, and they have virtually no retirees.

In this country, the older your workforce, the higher your health costs. If you are a mature industry like we are, providing jobs and paying taxes for three generations or more and paying for health benefits for hundreds of thousands of workers and retirees, you are at a big competitive disadvantage.

We are encouraged that the Clinton administration has made health care reform such a high priority. It is important if the country is ever going to get its deficit under control, in order to meet the health needs of all its citizens, and to protect the living standards of the country.

But there is another reason that is often overlooked. Health care reform is absolutely essential to improve the international competitiveness of American business. Today, mature industries like ours are hardest hit. But all new industries hope to become mature one day, and they should not be saddled with the same burden along the way.

Thank you, once again, for listening.

[The prepared statement of Mr. Lutz follows:]

PREPARED STATEMENT OF ROBERT A. LUTZ

Mr. Chairman and members of the committee, I want to thank you for the privilege of appearing before you today.

I'm here along with my colleagues from General Motors and Ford with some good news about the American automobile industry. For the past decade or more, you've heard a lot of bad news—declining market share, plant closings, lost jobs, and during the recent recession, some arterial bleeding of red ink. Connect all those dots and it's easy to get a picture of an industry that has lost its competitiveness.

But that's just a one-dimensional sketch. We're going to paint between those lines this morning, and show you a different picture. We're going to describe an industry that has taken some bold and painful steps to get itself in shape to compete. More may yet be necessary. But we're ready to step into the ring with anybody in the world. And all we ask is a fair fight.

At Chrysler, getting in shape involved "spending cuts," "investment," and "reinvention," three terms not unfamiliar to any of you in this town right now.

We came to you for help in 1980. We got it. We paid off our loan guarantees seven years early. We created a whole new segment with our minivan. We rebuilt our plants. Our quality got better. But by 1989, we realized that evolution was too slow; we needed a revolution to survive.

We began with a massive cost cutting program. We can now count four billion dollars in annual savings. As I said, it was painful: We lost almost 17 percent of our white collar work force.

But as we were cutting, we were also investing. Our product spending plan was sacred. We knew that none of our sacrifices made sense if, in the end, we didn't have world-class products. We also spent a billion dollars to open a world-class technical center that some people said could have waited. And we spent another billion to open a world-class assembly plant in inner-city Detroit that some people said should have been built somewhere else, at less cost.

As we were cutting and investing, we were also reinventing the company. We gutted our organization. We tore down all the bureaucratic walls built up since 1925. We created cross-functional "platform teams" where designers, engineers, purchasing agents, manufacturing people, marketing specialists and others work together from the very beginning to take a car all the way from concept to the customer. And they now do it faster and at higher guality levels than ever before.

The results have been dramatic. Our minivans, our new Grand Cherokee and our new LJI sedans are all sold out. And we just finished a successful stock offering that brought almost $2 billion in new capital into the company.

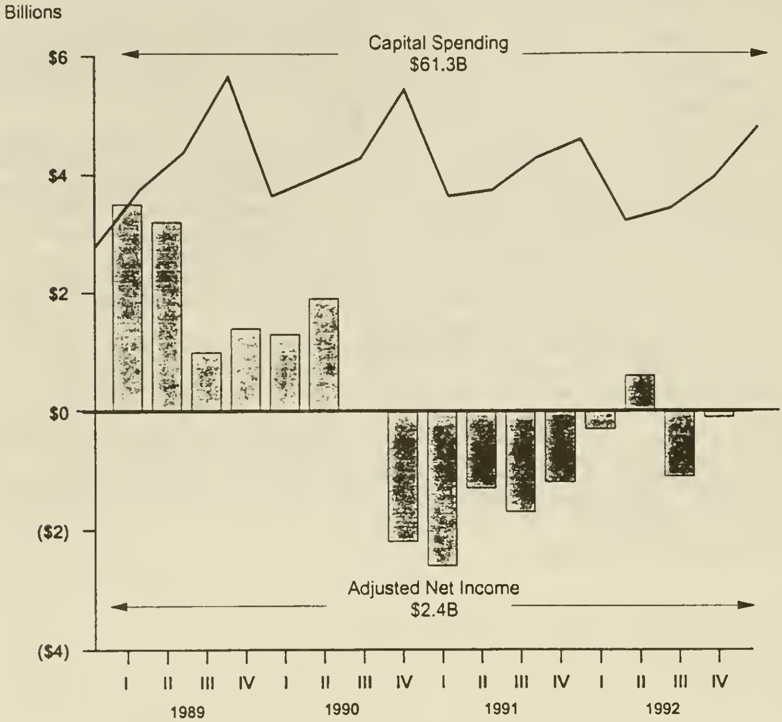
By the way, we've already put half of that money into our pension fund. And by the end of the year, we hope to further reduce our unfunded pension liability.

Ford and GM have their own strong stories to tell, and I'll let them do it. None of us have been stopping to smell the flowers in the past few years. As you may know, the three of us don't pat each other on the back very often. We usually try to beat each others' heads in. And that kind of competition is healthy.

But what's even healthier is that the Big Three have taken on the foreign companies in this market—frankly, sometimes against some very tall odds—and we're beginning to win again.

Let me show you how:

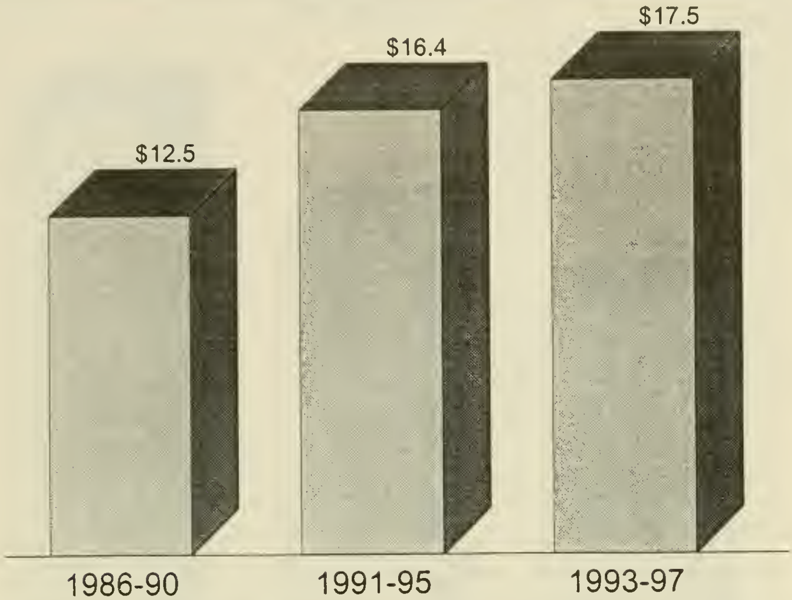
CHART 1—CHRYSLER, FORD, AND GENERAL MOTORS NET INCOME AND CAPITAL SPENDING



Note: Net Income excludes extraordinary events.

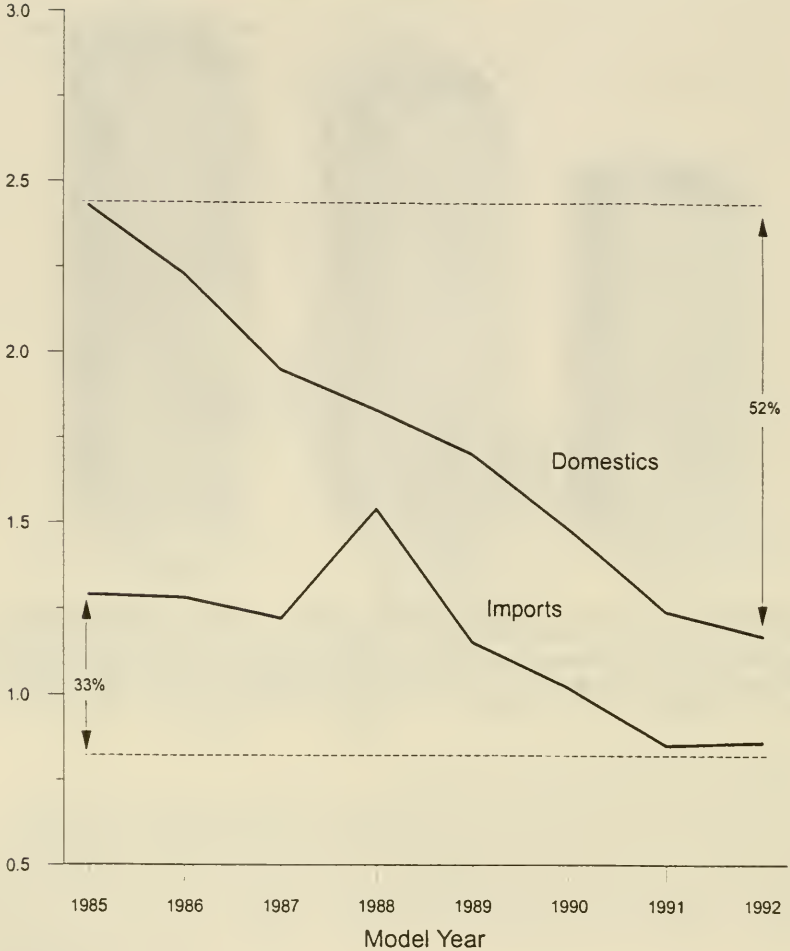
• First, heavy investment—in good times and bad. Even in the good times before the recession, capital spending by the Big Three was way above net income. And when that income went negative, the spending actually went up. This is a terrifying chart if you're a businessman, but the domestic companies weren't scared off by the red ink. We kept pouring more and more money into our businesses because that's what we had to do to compete. Total capital spending for the Big Three was more than $61.3 billion from 1989 to 1992, but our net income was only $2.4 billion. That's a 26 to 1 ratio!

CHART 2—PRODUCT SPENDING—CHRYSLER AUTOMOTIVE PROGRAM SPENDING (BILLIONS)



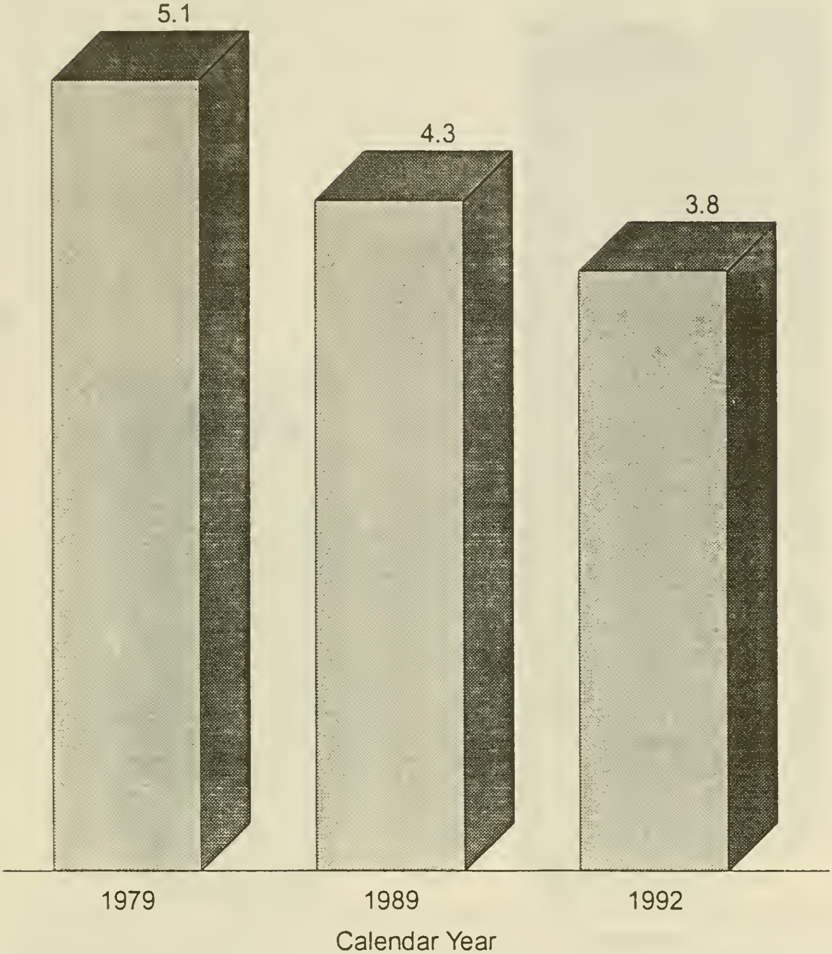
• This chart just shows Chrysler's spending. And remember, we're the smallest of the Big Three. Twelve-and-a-half billion dollars from 1986 to 1990; $16.4 billion from 1991 to 1995; and we've just revised our five-year plan to $17.5 billion between 1993 and 1997. Just to give you an idea of that commitment, $17.5 billion is more than twice as much as Chrysler has made in net profits in its entire 67-year history.

CHART 3—QUALITY IMPROVEMENTS—THINGS GONE WRONG/VEHICLE



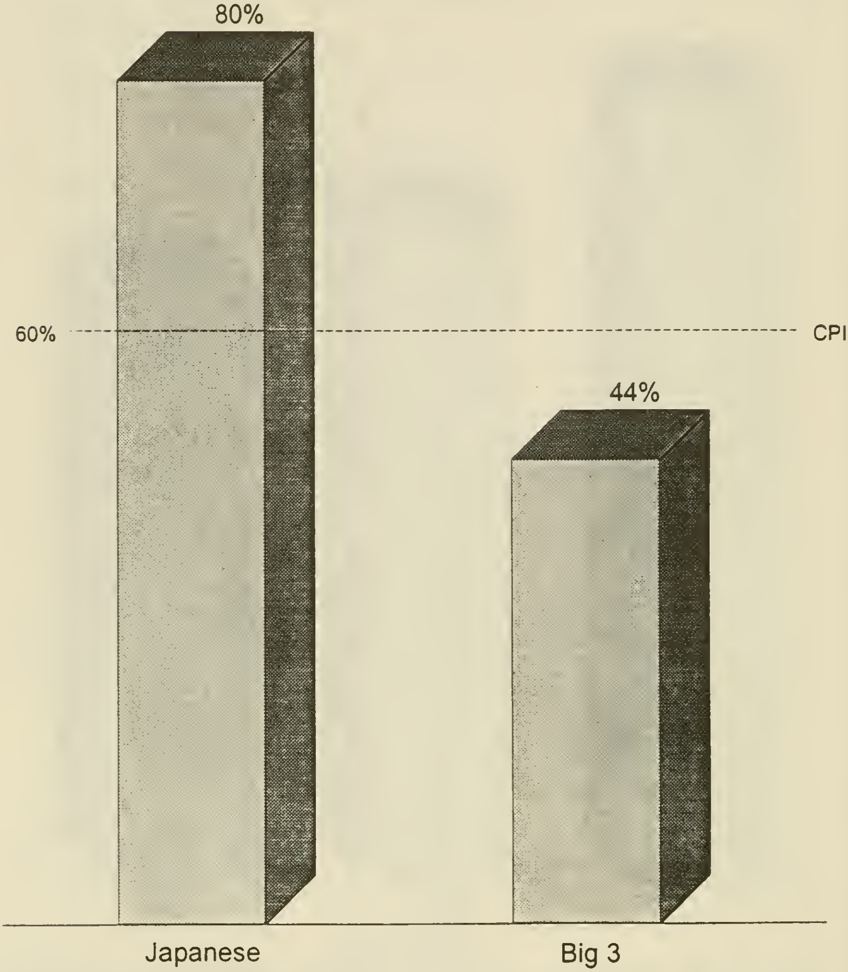
• Second, we improved quality. The red line on the bottom represents the imports, the blue line on the top the Big Three. There was a big gap in 1985. Today it's almost gone. That little space remaining represents one-third of a defect per car per year. For all practical purposes, there simply is no quality gap anymore.

CHART 4—PRODUCTIVITY GROWTH–U.S. INDUSTRY—EMPLOYEES PER VEHICLE PER DAY—BIG THREE



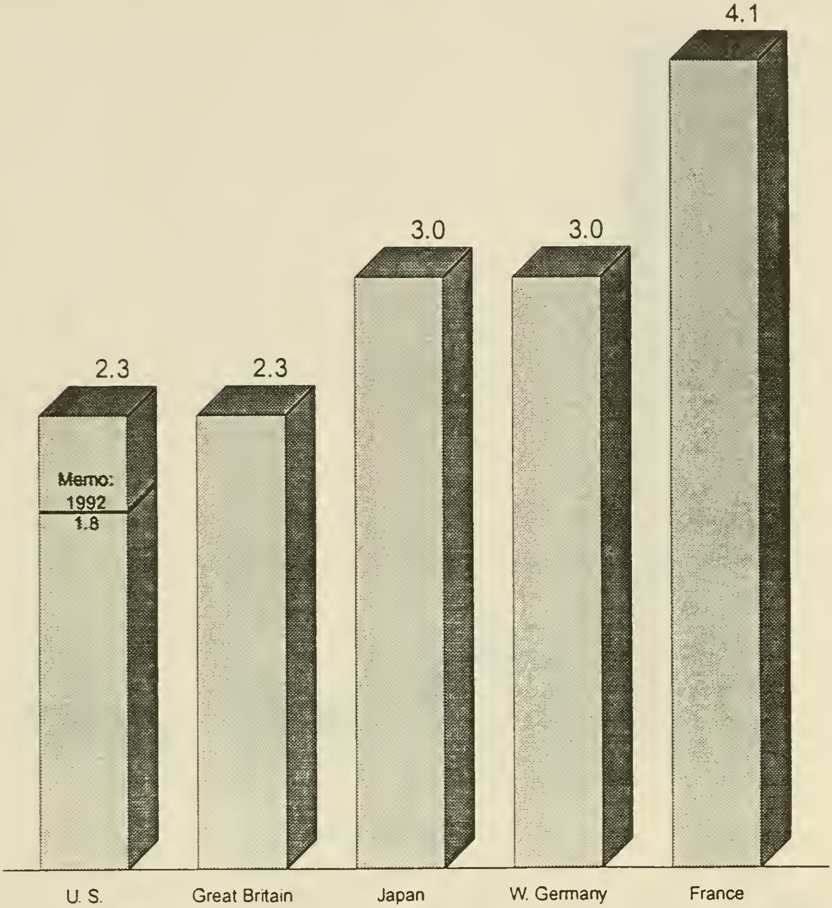
• Third, we increased productivity. In 1979, it took 5.1 workers per day to produce one vehicle. Four years ago, it was 4.3. Today, it takes only 3.8 workers.

CHART 5—CAR PRICING—CHANGES SINCE VOLUNTARY RESTRAINT AGREEMENT (VRA) (APRIL 1981)



• Fourth, we've held price increases significantly below inflation. Since the Voluntary Restraint Agreement with Japan in April of 1981, Big Three prices have gone up a total of 44 percent. The CPI has grown by 60 percent. And the Japanese have increased prices by 80 percent. And by the way, those are the facts in spite of some erroneous reports that we've been following Japanese prices upward.

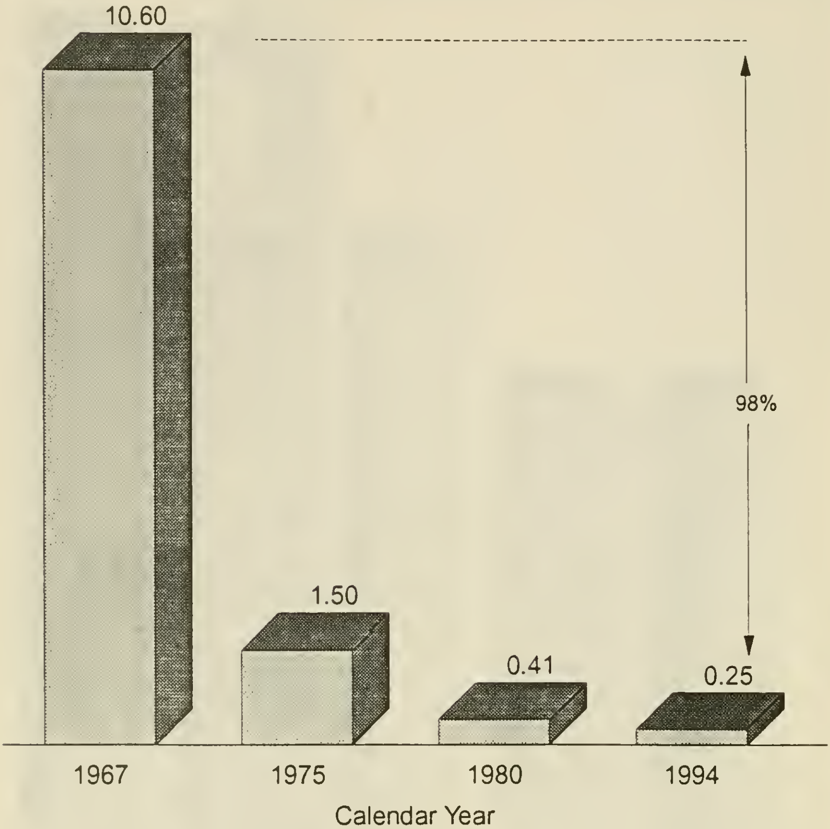
CHART 6—TRAFFIC FATALITIES—FATALITIES PER 100 MILLION VEHICLE MILES, 1989



• Fifth, we've made cars safer. It was the Big Three that first put air bags in cars in any significant volume. I'm proud to say that Chrysler was the first to put them in all its U.S.-made cars. Ford and GM weren't far behind. The Japanese are just now catching up. Along with anti-lock brakes, integrated child seats and other safety innovations, we've helped make the United States the safety leader among the major industrialized nations. The chart you see, by the way, is from 1989, the last year for which we have comparative figures. Actually, the U.S. number is now down from 2.3 deaths per 100 million vehicle miles to just 1.8.

65-745 0 - 95 - 2

CHART 7—TAILPIPE EMISSION REDUCTION—FEDERAL STANDARDS FOR HYDROCARBONS (GRAMS/MILE)



• Sixth, we've made our products more environmentally friendly. It takes a longer view to really get the picture. This slide shows that weave reduced emissions by more than 90 percent since 1967. Frankly, I didn't know this until I picked up The Detroit News a week or so ago, but a reporter who's been covering our industry for years pointed out that a family car today emits fewer pollutants driving down the highway at 55 miles-per-hour than a typical new vehicle 30 years ago did, parked in the driveway with the engine off.

Now, these are just the highlights. To really get a feel for what the Big Three have done to make themselves more competitive, you have to come to Detroit, visit our plants and our research facilities, talk to our people, and see the technology first-hand. Our doors are always open, and we invite all of you to come.

I'm sure that you know as well as I do, however, that competitiveness involves much more than one company or one industry turning out better products. It's more than good management and motivated workers. It used to be that simple, but it's not anymore. We live in a global economy where it's not just companies that compete, but countries. And the policies that a country creates are as important to the overall competitiveness of its economy as all the innovativeness and hard work of its citizens.

To cite just one example, our tax laws hurt us. Our major trading partners impose VAT taxes on autos and other products. Those taxes are imposed on imports to their countries but forgiven on exports, thus making their products more competitive in the world market.

I'm proud of what my industry has done. And I think we deserve even more credit because weave been rebuilding our companies at the same time we've also been

competing with foreign companies whose governments' policies have given them big advantages over us.

Where our competitiveness depends on our own actions, we're getting the job done. Where it depends on public policies, government has a major role to play.

Mr. Hoglund and Mr. Pestillo will be discussing some of those policies. I'm going to mention just one—the way we choose to pay for health care in this country. We do not choose, like everyone else in the world, to spread those costs broadly over the whole population base. Instead, we have an erratic assortment of public and private programs that have allowed costs to go wildly out of control while leaving substantial numbers of Americans without coverage at all.

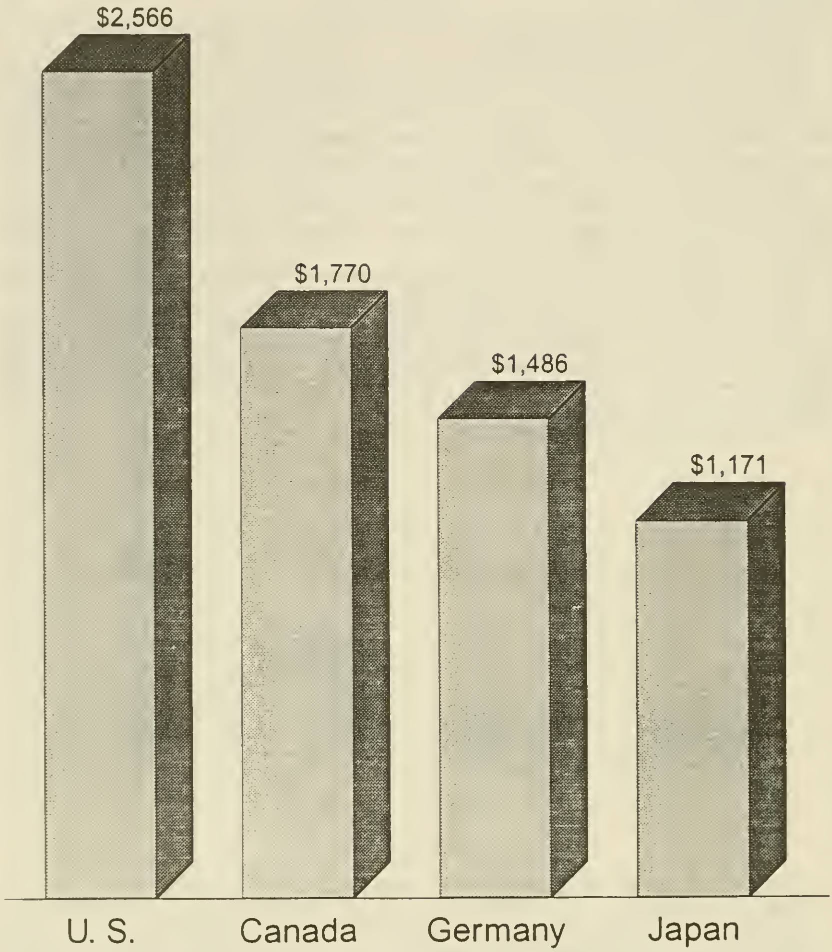
Our costs are driven up not only by inefficiencies within the health care system itself, but also by our legal system. Lawyers, working for contingency fees, have our doctors practicing defensive medicine.

Now, I'm here to talk about competitiveness, so I'll limit my comments to how these costs affect my company and my industry.

Our industry is the largest manufacturing employer in this country. We're a mature industry—our work force is older, and we have almost as many retirees as we do active workers. We provide good health coverage to all of those workers and retirees. And we're an industry that must compete every day with companies around the world whose health costs are a fraction of ours.

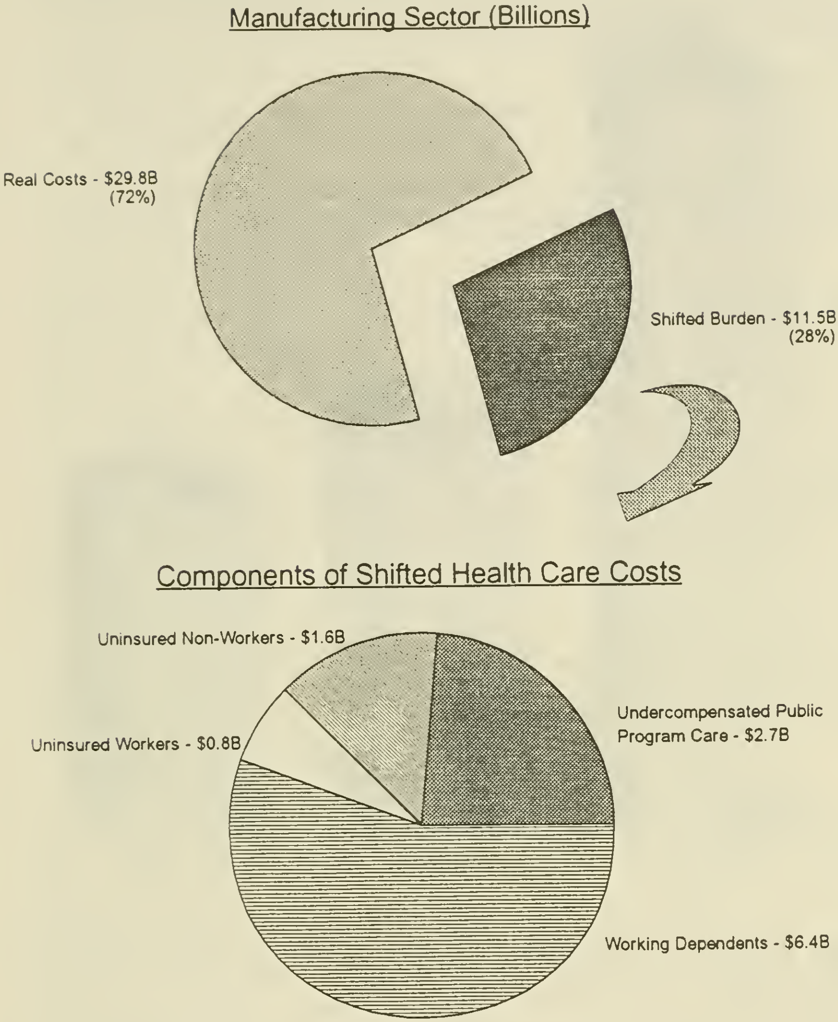
We get hit from two directions.

CHART 8—ANNUAL HEALTH CAR COSTS, 1990—ANNUAL HEALTH CARE COSTS PER CAPITA



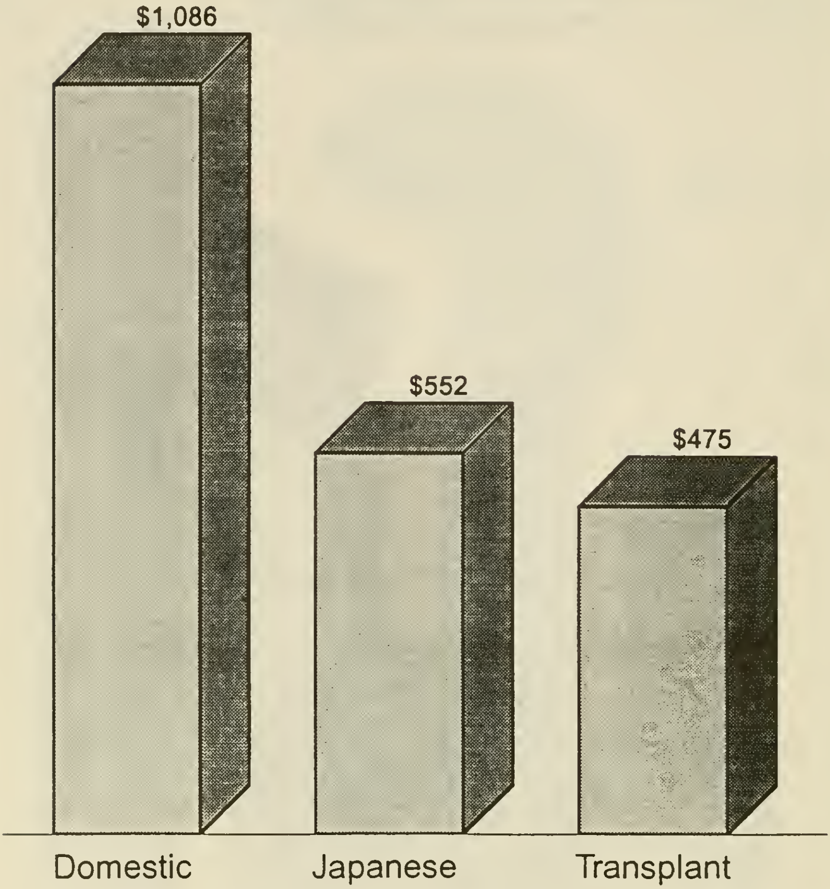
• First, the United States has, by far, the highest health costs in the world. So the neighborhood is expensive. Here are per-capita health care costs for four major carproducing countries. For the U.S., it's $2,566; for Canada, $1,770; for Germany, $1,486; and for Japan it's only $1,171. So as a nation, we pay substantially more than other major countries for our health care. And that will always put our auto industry at a big disadvantage in the global market.

CHART 9—U.S. HEALTH CARE COSTS, 1991



• Second, because we're a large employer, we carry a disproportionate part of the costs. We have Robin Hood medicine in this country. We all know that. Cost shifting is part of the game, and the burden lands sguarely onto the shoulders of manufacturing companies like Ford, General Motors and Chrysler. According to research by the National Association of Manufacturers, about 28 percent of the health costs paid by companies like us are not our costs. They are shifted to us by ether employers who don't provide coverage to their employees, by government that underpays Medicare and Medicaid costs, and by people who simply can1t afford to pay for their own health care.

CHART 10—U.S. HEALTH CARE COSTS—HEALTH CARE COSTS PER UNIT, 1990



• And this is the impact on us. These are University of Michigan figures. They show health costs adding $1,086 to the cost of a domestic car; $552 to the cost of a Japanese import; and $475 to the cost of a Japanese car made in the U.S. So we lave a $500 per unit disadvantage against the imports, and a $600 burden against the transplants.

Now to put that in perspective, only four times in our company's history have we ever made an average of $500 per car. We have teams working every day trying to take one or two dollars out of the cost of a vehicle—the competition is that intense. A $500 to $600 gap due to something we can't control is a major competitive problem.

You may wonder why the disadvantage is even greater with the foreign transplants built in this country under our health care system than it is with imports. It's because they're all new, their work forces are 13 years younger than ours, and they have virtually no retirees.

In this country, the older your work force, the higher your health costs. If you are a mature industry like we are, providing jobs and paying taxes for three generations or more, and paying for health benefits for hundreds of thousands of workers and retirees, you are at a big competitive disadvantage.

We're encouraged that the Clinton Administration has made health care reform such a high priority. It's important if the country is ever to get its deficit under control, in order to meet the health needs of all its citizens, and to protect the living standards of the country. But there's another reason that's often overlooked: Health

care reform is absolutely essential to improve the international competitiveness of American business.

Today, mature industries like ours are hardest hit. But all new industries hope to become mature one day, and they shouldn't be saddled with the same burden along the way.

Thank you once again for listening.

The CHAIRMAN. Thank you very much.

Mr. Hoglund.

STATEMENT OF WILLIAM E. HOGLUND, EXECUTIVE VICE PRESIDENT, CORPORATE AFFAIRS, GENERAL MOTORS CORP.

Mr. HOGLUND. Thank you.

Our industry has worked hard over the last few years to strengthen our relationship with our customers, our dealerships and our suppliers. For example, last year, together with 29 other companies, we organized the Joint Supplier Council to focus on those policy issues of greatest important to manufacturers and our parts and component suppliers alike.

It is now time to forge new cooperative programs and relationships with Government, to address together a host of critical policy issues as diverse, as Bob said, as health care, energy conservation, technological leadership, and economic growth. The success of our efforts will affect the number and quality of jobs available to us, our standard of living and even the Nation's ability to play a positive role in the world.

All three domestic auto companies have undergone difficult and painful restructuring, as Mr. Lutz has said. But they are leading to a stronger industry, with higher productivity and world-class, quality products. Our industry remains one of the most significant components of the U.S. economy.

This chart shows the significance clearly.

Our consumption of the U.S. output of other major industries includes 13 percent of steel, 15 percent of aluminum, 20 percent of semiconductors, 25 percent of glass, 40 percent of machine tools, and so on. And I might add, Mr. Chairman, although it is not on the chart, that we are a prodigious purchaser of textiles, about $1.4 billion a year.

We are also one of the Nation's largest high-technology industries. Today's motor vehicle is a complex system of sophisticated materials, electronics and mechanics, all integrated, using sophisticated engineering tools and produced using state-of-the-art manufacturing processes.

A GM car today with state-of-the-art safety systems, ABS, traction control, and supplemental inflatable restraints, has the computing power of the onboard guidance system of the Apollo moonshot. Further, the newest engine control systems that we will phase in with the 1994 model year have about four times the power of the Apollo's onboard guidance system. And we should know. GM's Delco electronic subsidiary built the Apollo system and is providing the systems for our cars. We are, by the way, the country's largest single producer of microprocessors.

There are other facts that stand out about our industry. The U.S. auto industry is the biggest customer of small business. It supports 1.4 million U.S. jobs and over $30 billion in wages, exclusive of

benefits. Its products are sold by over 18,000 independently owned domestic dealerships employing over 900,000 people.

It creates 15,000 jobs for every 100,000 domestically produced vehicles. I am referring to vehicles assembled and manufactured here in North America. And the industry has a supplier, manufacturing, and assembly network involving over 4,400 facilities in 48 States, with Wyoming and Hawaii the only exceptions.

The auto industry is not just Detroit. It is an integral player in your State, Mr. Chairman, and in the States of the vast majority of the members of the Commerce Committee.

I would like to underscore another key point about our industry with this chart. Contrary to many claims, General Motors, Ford, and Chrysler, together, assemble in the United States and Canada 96 percent of the vehicles we sell in the United States, compared with around 46 percent for all Japanese manufacturers. Moreover, the average U.S./Canadian content for the Big Three deliveries in the United States is over 92 percent, almost double the North American content of the average Japanese vehicle sold in the United States.

This high North American content of the Big Three's products translate directly into more high-paying U.S. automotive jobs, especially many of the high-valued-added engineering jobs that the transplants and imports leave behind in Japan.

Let us make no mistake about it. A car that is manufactured, assembled, and sold in the United States by GM, Ford, and Chrysler creates significantly more U.S. jobs than the average Japanese car, no matter where it is built.

Clearly, this industry is vital to the Nation's economy.

It is in fact the heart of America's industrial base. We are one of the most highly regulated, nonutility industries in the country, yet our market is wide open to foreign competition. Clearly, regulation, and how it is implemented, is one of the decisive factors in our future.

Unfortunately, the traditional adversarial approach to regulation too often diminishes the flexibility needed to compete effectively, without providing adequate compensating benefits. Industry has had as much to do with this relationship as anyone. But we now recognize that the process of regulation in this country, no less than our educational and health care systems, badly needs reform. We must find a way to facilitate cooperation and problemsolving that supports our respective goals.

We must do it, in part, for competitive reasons. Under the Clean Air Act Amendments of 1990, the EPA must conduct an assessment of the competitive impact of that legislation. Our industry has prepared a detailed analysis of the trade advantages enjoyed by Japan because of its less demanding and more flexible regulatory approach to reducing air pollution.

This report has been submitted for EPA's consideration. I would like to request that it also be made part of this hearing record. It offers specific recommendations to ensure that our industry is not disadvantaged competitively because of Japan's less restrictive approach. I urge you to review it.

The CHAIRMAN. It will be included.

Mr. HOGLUND. Thank you very much.

Our experience with regulation over the last two decades has persuaded us that both government and industry should try to develop some mutually agreeable criteria to govern regulatory programs. We believe it is in everyone's interest to help minimize the negative effects or unintended consequences of regulation.

Our industry is committed to continued progress in meeting the demands of the public, our customers, for cleaner air, safer vehicles, and improved fuel efficiency. We have made significant progress in these areas while simultaneously meeting the challenges of a fiercely competitive international market.

Clearly, Americans want cleaner air, and the motor vehicle industry is playing a critical role in delivering it. As this chart shows, exhaust emissions of hydrocarbons and carbon monoxide are today down 96 percent, and nitrogen oxide is down 76 percent from uncontrolled levels. Meeting the requirements of the new Clean Air Act will cut remaining tailpipe emissions in half once again. Big gains in the future will result from turnover in the fleet of vehicles and from market-based programs—for example, to encourage the scrappage and repair of high-emitting vehicles now on the road.

National air quality is improving. For example, 41 of the 97 areas of the country identified in 1990 as out of compliance with the smog standard are now in compliance.

Americans clearly want to be safer as they travel our Nation's highways. In response, our industry has led efforts to increase seatbelt usage in the United States. Usage today has reached nearly 60 percent, up from 14 percent in 1984. We are also leading the way in crash avoidance, with antilock brakes and traction control. This combination, as Bob indicated, has helped the United States achieve the lowest traffic fatality rate in the industrialized world, 1.8 per 100 million miles. And we are working together to reduce that rate. In this regard, I want to commend the Government's efforts that have helped reduce the number of drunk drivers on the roads. But we need every effort to improve that even more.

Americans also demand fuel efficiency from their motor vehicles. Since 1974, the average fuel economy of the cars we sell has more than doubled. Our family sized cars now get as much fuel efficiency as our compact cars achieved in 1975. In addition, all three companies have devoted substantial resources to alternative fuel technologies—ethanol, methanol, natural gas, and electricity. And we intend to build on this progress.

At the same time, we face serious challenges. At EPA alone, over 100 new rules affecting motor vehicles and our manufacturing facilities are now being developed. The point is, EPA rules already require significant resource commitments by each of our companies. The threat of additional regulations heightens the uncertainty facing teams working to develop new products and processes, and greatly increases the risks to our business.

We are encouraged by President Clinton's determination to work in a cooperative way with our industry on the tough regulatory and competitive challenges facing our industry.

During the campaign, he stressed the importance of relying on market-oriented policies to achieve our national environmental and energy objectives. In last year's Earth Day speech, for example, then-Governor Clinton pointed to the need to bring powerful mar-

ket forces to bear on America's pollution problems. He said, "Many of environmental efforts in the past were based on a command-and-control approach to regulation that told firms how much pollution to produce and what kind of technology to use. While that approach produced important successes, it sometimes stifled innovation by locking firms into a specific kind of equipment, and increased regulatory costs and burdens by taking such a detailed and inflexible approach."

As the President suggests, relying more on market-based approaches will help our Nation meet its objectives at lower costs. The creative and competitive energies of producers will be unleashed. And consumers will have more choices in the marketplace.

The last subject I wish to discuss with you today is technology policy. Technology and innovation are critical to the success of the U.S. auto industry. They are also fundamental to the Nation's competitiveness and to its ability to meet some of our most urgent social needs.

General Motors, as one of the Nation's largest private research and development organizations, has recognized this with R&D expenditures in the United States of almost $5 billion in 1992. However, the technical and financial resources required to address the Nation's priorities exceed those of any one company or industry. Thus, industry, Government, and universities need to work closely together, as they do in other industrialized countries, to leverage our resources.

That is why General Motors has led the effort to work more closely with the Government and with other automakers on a number of critical R&D projects. GM, Ford, and Chrysler created the United States Council on Automotive Research, USCAR, to coordinate joint R&D efforts that will advance critical automotive technologies. These efforts currently range from basic research on battery technology for tomorrow's electric vehicles to recycling, reuse, and disposal of motor vehicles and their components.

We are also aggressively pursuing cooperative research projects with the National Laboratories. In January 1992, General Motors hosted a landmark 3-day symposium with 11 of the Department of Energy's laboratories and over 2,000 GM engineers and scientists. As a result, a number of cooperative research and development agreements and R&D consortia have been initiated, and many more are being explored. It is through programs like this that we can diminish the adversarial relationships that have characterized the past.

We are pleased that the President recently announced technology plan addressed many of the issues which we believe can lead to greater cooperation. The plan includes tax, antitrust, regulatory, trade, educational, and administrative reforms aimed at stimulating research and development. It calls for the development of R&D consortia to leverage the Nation's technological resources. It would promote essential investments in the Nation's communication, transportation, and manufacturing infrastructures.

It also emphasizes business participation and leadership in finding technical solutions to environmental problems. And it highlights a simple but critical fact—that the auto industry must sell in the marketplace the vehicles it develops.

In conclusion, let me say that our industry is optimistic about the future, based in part on our belief that key officials in the administration and members of Congress recognize the need for a dynamic, profitable auto industry that can help achieve the Nation's economic and social goals.

Thank you.

[The prepared statement of Mr. Hoglund follows:]

Prepared Statement of William E. Hoglund

My name is Bill Hoglund. I am Executive Vice President and a member of the Board of Directors of General Motors, and I appreciate this opportunity to address the competitive issues facing our nation's largest manufacturing industry.

INDUSTRY-GOVERNMENT COOPERATION

With the end of the Cold War, and in the face of stiff global competition and a heightened awareness of society's needs, it is more important than ever that industry and government understand and respect each other's challenges and responsibilities. The decisions made by policymakers like the members of this Committee, and many other officials tbroughout the federal government, have an enormous cumulative impact on our ability to compete. And the decisions made by our companies in response to market demand bear directly on the nation's economic, environmental, energy, safety and health goals.

Our industry has worked hard over the last few years to strengthen our relationships with our customers, employes, dealers and suppliers. For example, last year, together with 29 other companies, we organized the Joint Supplier Council to focus on those policy issues of greatest importance to manufacturers and our parts and components suppliers. It is now time to forge new cooperative programs and relationships with government to address together a host of critical policy issues as diverse as health care, energy conservation, technological leadership and economic growth.

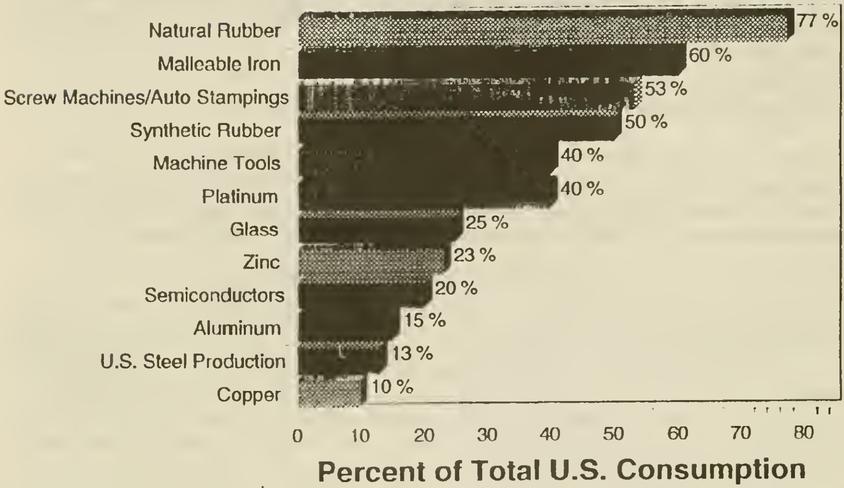
The success of our efforts will affect the number and quality of jobs available to us, our standard of living and even the nation's ability to play a positive role in the world.

SIGNIFICANCE OF THE AUTO INDUSTRY

All three domestic auto companies have undergone difficult and painful restructurings, but they are leading to a stronger industry with higher productivity and world-class quality products. Our industry remains one of the most significant components of the U.S. economy.

This chart [chart 1] shows this significance clearly. Our consumption of the U.S. output of other major industries includes 13 percent of steel, 15 percent of aluminum, 20 percent of semiconductors, 25 percent of glass, 40 percent of machine tools and so on. And I might add, Mr. Chairman, although it's not on this chart, we are a prodigious purchaser of textiles—about $1.4 billion worth per year.

The U.S. Auto Industry Buys:



We are also one of the nation's largest high-tech industries. Today's motor vehicle is a complex system of sophisticated materials, electronics and mechanics, all integrated, using sophisticated engineering tools and produced, using state-ofthe-art manufacturing processes.

A GM car today with state-of-the-art safety systems—ABS, traction control and supplemental inflatable restraints—has the computing power of the on-board guidance system of the Apollo moonshot. Further, the newest engine control systems, that we will phase in with the 1994 model year, have about four times the power of the Apollo's on-board guidance system. And we should know—GM's Delco Electronics subsidiary built the Apollo system and is providing the systems for our cars. GM is, by the way, the country's largest single producer of microprocessors.

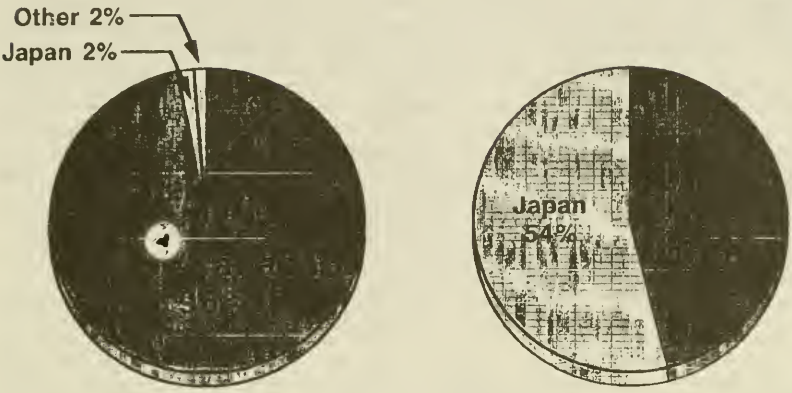
There are other facts that stand out about our industry:

The U.S. Auto Industry: Is the biggest customer of small business; Supports 1.4 million U.S. jobs and over $30 billion in wages (exclusive of benefits); Its products are sold by over 18,000 independently-owned domestic dealerships, employing over 900,000 people; It creates 15,000 jobs for every 100,000 domestic vehicles produced; It performs over 12 percent of all corporate R&D in the U.S.; And the industry has a supplier, manufacturing and assembly network involving 4,400 facilities in 48 states, with Wyoming and Hawaii the only exceptions.

The auto industry is not just Detroit—it's an integral player in your state, Mr. Chairman, and in the states of the vast majority of the Members of the Commerce Committee.

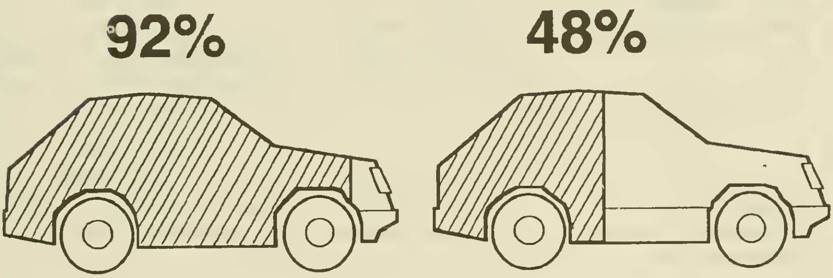
I want to underscore another key point about our industry [chart 2]. Contrary to many claims, General Motors, Ford and Chrysler together assemble in the U.S. and Canada 96 percent of the vehicles we sell in the U.S., compared with around 46 percent for all Japanese manufacturers [chart 3]. Moreover, the average U.S.-Canadian content for the Big Three deliveries in the U.S. is over 92 percent, almost double the North American content of the average Japanese vehicle sold in the U.S. This high North American content of the Big Three translates directly into more high-paying U.S. automotive jobs—especially many of the high value-added engineering jobs the transplants and imports leave behind in Japan. Let's make no mistake about it. A car that is manufactured, assembled and sold in the U.S. by GM/Ford/Chrysler creates significantly more U.S. jobs than the average Japanese car.

Source of Vehicles Sold in the U.S.:



GM/Ford/Chrysler   Japanese

U.S. - Canadian Content*
Vehicles Sold in the U.S.



GM/Ford/Chrysler   Japanese

* Calculated according to the EPA's regulation governing fuel economy based on all costs to produce and market the vehicle and any profit thereon.

Clearly, this industry is vital to the nation's economy. It is, in fact, the heart of America's industrial base.

REGULATION

We are one of the most highly regulated, non-utility industries in America, yet our market is wide open to foreign competition. Clearly, regulation, and how it is implemented, is one of the decisive factors in our future.

Unfortunately, the traditional adversarial approach to regulation too often diminishes the flexibility needed to compete effectively, without providing adequate compensating benefits. Industry has had as much to do with this relationship as anyone. But we now recognize that the process of regulation in this country, no less than our educational and health care systems, badly needs reform. We must find

a way to facilitate cooperation and problem-solving that supports our respective goals.

We must do it, in part, for competitive reasons. Under the Clean Air Act Amendments of 1990, EPA must conduct an assessment of the competitive impact of that legislation. Our industry has prepared a detailed analysis of the trade advantages enjoyed by Japan because of its less demanding and more flexible regulatory approach to reducing air pollution. This report has been submitted for EPA's consideration. I would like to request that it also be made part of this hearing record. It offers specific recommendations to insure that our industry is not disadvantaged competitively because of Japan's less restrictive approach. I urge you to review it.

Our experience with regulation over the last two decades has persuaded us that both government and industry should try to develop some mutually agreeable criteria to govern regulatory programs. We believe it is in everyone's interest to help minimize the negative effects or unintended consequences of regulation.

Our industry is committed to continued progress in meeting the demands of the public—our customers—for cleaner air, safer vehicles and improved fuel efficiency. We have made significant progress in these areas while simultaneously meeting the challenges of a fiercely competitive international market.

Clearly, Americans want cleaner air, and the motor vehicle industry is playing a critical role in delivering it. As this chart shows, [chart 4], exhaust emissions of hydrocarbons and carbon monoxide are today down 96 percent and nitrogen oxide is down 76 percent from uncontrolled levels. Meeting the requirements of the new Clean Air Act will cut remaining tailpipe emissions in half again. Big gains in the future will result from turnover in the fleet of vehicles and from market-based programs—for example, to encourage the scrappage and repair of high-emitting vehicles now on the road.

Industry Progress

Air Quality	Safety	Fuel Economy
Tailpipe Emissions Reductions HC 96% CO 96% NOx 76%	Seat Belt Usage 1984 14% 1992 60%	1974 - 1992 CAFE Change GM/Ford/Chrysler 108.6% Toyota/Honda/Nissan 19.4%
New Clean Air Act Will lead to further reductions in emissions from new vehicles	Crash Avoidance • Anti-Lock Brakes • Traction Control	1983 - 1992 CAFE Change GM/Ford/Chrysler 9.8% Toyota/Honda/Nissan (12.7)%
Air Quality Is Improving 41 of the 97 areas out of compliance for smog in 1990 now comply	Traffic Mortality Rate 1982 -- 2.8/100 million miles 1992 -- 1.8/100 million miles	

National air quality is improving. For example, 41 of the 97 areas of the country identified in 1990 as out of compliance with the smog standard are now in compliance.

Americans clearly want to be safer as they travel our nation's highways. In response, our industry has led efforts to increase seat belt usage in the United States. Usage today has reached nearly 60 percent, up from about 14 percent in 1984. We are also leading the way in crash avoidance with anti-lock brakes and traction control. This combination has helped the United States achieve the lowest traffic fatality rate in the industrialized world—1.8 per 100 million miles—and we are working together to reduce that rate. In this regard, I want to commend the government's efforts that have helped reduce the number of drunk drivers on the roads.

Americans also demand more fuel efficiency from their motor vehicles. Since 1974, the average fuel economy of the cars we sell has more than doubled. Our family-sized cars now get as much fuel efficiency as our compact cars achieved in 1975.

In addition, all three companies have devoted substantial resources to alternative fuel technologies—ethanol, methanol, natural gas and electricity.

We intend to build on this progress. At the same time, we face serious challenges. At EPA alone, over 100 new rules affecting motor vehicles and our manufacturing facilities are now being developed. The point is, EPA rules already require significant resource commitments by each of our companies. The threat of additional regulation heightens the uncertainty facing teams working to develop new products and processes and greatly increases the risks to our business.

NVe are encouraged by President Clinton's determination to work in a cooperahve way with our industry on the tough regulatory and competitive challenges facing our industry.

During the campaign, he stressed the importance of relying on market-oriented policies to achieve our national environmental and energy objectives. In last year's Earth Day speech, for example, then-Governor Clinton pointed to the need to bring powerful market forces to bear on America's pollution problems.

He said, and I quote: "Many of our environmental efforts in the past were based on a 'command-and-control' approach to regulation that told firms how much pollution to produce and what kind of technology to use. While that approach produced important successes, it sometimes stifled innovation by locking firms into a specific kind of equipment, and increased regulatory costs and burdens by taking such a detailed and inflexible approach."

As the President suggests, relying more on market-based approaches will help our nation meet its objectives at lower costs. The creative and competitive energies of producers will be unleashed. And consumers will have more choices in the marketplace.

TECHNOLOGY POLICY

The last subject I wish to discuss with you is technology policy.

Technology and innovation are critical to the success of the U.S. auto industry. They are also fundamental to the nation's competitiveness and to its ability to meet some of our most urgent social needs. General Motors, as one of the nation's largest private R&D organizations, has recognized this with R&D expenditures in the U.S. of almost $5 billion in 1992. However, the technical and financial resources required to address the nation's priorities exceed those of any one company or industry. Thus, industry, government and universities need to work closely together, as they do in other industrialized countries, to leverage our resources.

This is why General Motors has led the effort to work more closely with the government and with other automakers on a number of critical R&D projects. General Motors, Ford and Chrysler created the United States Council On Automotive Research (USCAR) to coordinate joint R&D efforts that will advance critical automotive technologies. These efforts currently range from basic research on battery technology for tomorrow's electric vehicles to the recycling, re-use and disposal of motor vehicles and their components.

General Motors is also aggressively pursuing cooperative research projects with the National Laboratories. In January 1992, General Motors hosted a landmark three-day symposium with 11 of the Department of Energy's laboratories and over 2,000 GM engineers and scientists. As a result, a number of Cooperative Research And Development Agreements (CRADAs) and R&D consortia have been initiated, and many more are being explored. It is through programs like this that we can diminish the adversarial relationships that have characterized the past.

We are pleased that the President's recently-announced technology plan addresses many of the issues which we believe can lead to greater cooperation. The plan includes tax, antitrust, regulatory, trade, educational and administrative reforms aimed at stimulating R&D. It calls for the development of R&D consortia to leverage the nation's technical resources. It would promote essential investments in the nation's communications, transportation and manufacturing infrastructures. It also emphasizes business participation and leadership in finding technological solutions to environmental problems. AND IT HIGHLIGHTS A SIMPLE BUT CRITICAL FACT—THAT THE AUTO INDUSTRY MUST SELL IN THE MARKETPLACE THE VEHICLES IT DEVELOPS.

In conclusion, let me say that our industry is optimistic about the future, based in part on our belief that key officials in the Administration and Members of Congress recognize the need for a dynamic, profitable auto industry that can help achieve the nation's economic and social goals.

Thank you.

The CHAIRMAN. Good.

Mr. Pestillo.

STATEMENT OF PETER J. PESTILLO, EXECUTIVE VICE PRESIDENT OF CORPORATE RELATIONS, FORD MOTOR CO.

Mr. PESTILLO. Mr. Chairman, thank you.

We are pleased and proud to have this chance to talk about auto industry competitiveness.

While most of my comments are on trade, I can easily associate myself with the opening comments that my colleagues made.

You know, obviously, the major responsibility for competitiveness is the industry's and we believe we have got a good story to tell. Our efforts on quality, productivity, and teamwork have paid off in the marketplace.

As you indicated at the outset, the Ford Taurus was the best-selling car in America last year, but 5 of the top 10 best-selling vehicles in 1992 were Ford products. For the 11th consecutive year, the Ford F-series pickup was the best-selling single vehicle in America. And 9 out of the 10 most productive assembly plants are ours.

We are the only company, domestic or import, to increase both car and truck market share in the last year. Our car share was up 1.7 points.

We are confident of our ability to compete against anybody in the United States or anywhere in the world, provided we get a fair shake. Not all of our competitors are playing by the same trade rules, which has a major impact on our overall competitiveness.

This is a problem not just for companies, but for the Nation. Trade friction and imbalances threaten the global trading system that has been an engine of growth for economies around the world, particularly Japan and Europe. Last month, Japan announced a 1992 trade surplus with the rest of the world of $107 billion—the highest surplus ever for any nation. And the Commerce Department announced that our bilateral deficit with Japan for 1992 was almost $50 billion.

Every administration since President Nixon has accepted Japanese Government commitments and promises to reduce the trade imbalance, but the deficit continues to grow. The total United States-Japan trade imbalance has increased the last 2 years, and the automotive portion of that deficit has remained constant at about $32 billion a year since 1986, as the chart shows. All this, despite assurances by whatever administration was in place at the time that the Japanese were sensitive to our concerns and that programs were in place to address the causes of the imbalance.

There is ample evidence that something is out of whack.

Japanese manufacturers control nearly one-third of the U.S. car market and about 11 percent of the market in Europe, while at the same time, the combined total of all vehicles imported into Japan, all the cars from everywhere else in the world, amounts to less than 3 percent of that market.

The Japanese dominance of their home market has allowed Japanese auto producers to subsidize losses in the United States and Europe. In 1991, the top seven Japanese automakers earned $8.5 billion in Japan, while losing $1.4 billion in Europe and $3.6 billion in North America. This is not a 1-year phenomenon. In fact, over

the past 4 years, Japanese producers have earned an average of more than $9 billion in their home market, while losing an average of more than $3 billion in North American, and almost $1.4 billion in Europe.

With capacity of about 15 million vehicles in Japan, automakers there produce twice as many vehicles as they need to meet home market demand. And they continue to increase capacity, adding almost 1 million units of capacity in the last 4 years, despite the estimated 11 million units of worldwide excess automobile assembly capacity and severe recessions in many economies.

A recent industry analysis found vehicle dumping, either selling at a lower price here than in Japan or below the cost of production, across all segments and by all major Japanese producers. On average, we found dumping margins of 14 percent or $1,700 per vehicle.

Since 1986, the United States-Japan automotive deficit has failed to decrease much, despite the fact that Japanese producers now assemble nearly 2 million cars and trucks in this country. The reason for this is simple—transplants continue to use substantial levels of imported parts. An analysis of the transplant suppliers shows that most are Japanese-owned or joint ventures using high-value-added components imported from Japan. The result is lost U.S. jobs—half a million by some estimates.

By contrast, Ford and GM, combined, have nearly 25 percent of the European vehicle market, but there is no trade deficit between the United States and Europe, because both Ford and GM maintain very high levels of European content.

And some foreign manufacturers have been allowed to manipulate U.S. regulations. The classic example is that of an imported, Japanese four-door sport utility vehicle which is called a truck for almost all U.S. regulatory purposes—emissions, fuel economy, gas guzzler, and luxury tax. It is also called a truck under the Japanese voluntary restraint agreement. And this is no restriction at all since the VRA covers only cars. But that same sport utility vehicle is classified as a car only for U.S. tariff purposes to avoid a duty which has been costing the U.S. Treasury $200 to $300 million a year.

All this results in the most favorable treatment in all cases. We believe that both businesses and governments have roles to play in correcting the trade imbalance. U.S. manufacturers must make major efforts to compete in Japan. Recently, Ford, GM, and Chrysler have each lowered the price of selected models, strengthened distribution networks, increased advertising expenditures and visibility, and developed more right-hand drive products for sale in Japan. But entry is not going to be easy or ever match the Japanese levels here, because we were kept out of the Japanese market for nearly 50 years. That is in sharp contrast to the easy access Japanese manufacturers had to our market. For example, 95 percent of all U.S. car outlets sell at least one import brand, as compared to only 1 percent of the Japanese outlets in Japan.

It is also up to us to continue our efforts on quality and productivity, to produce high-value products to meet ever-increasing customer demands.

But the U.S. Government should insist that the Japanese achieve relative trade balance on a specific schedule. We have sug-

gested a 5-year timeframe with regular monitoring. Japan can make its own decisions as to how to achieve this goal, import more, export less, or both. What we need is a results-oriented policy, not regrets about not meeting targets from the Japan, as in the recent semiconductor case.

Also, the Government needs to make trade policy a central part of a national competitiveness strategy. For too long, trade has taken a back seat to other foreign policy concerns.

And finally, the Government should correct certain policies on its own, like MPV tariff rules, that operate to the advantage of foreign manufacturers. Such a move would show the Japanese that we are now serious about achieving fair trade.

President Clinton has stated that the United States will insist on fair trade rules in international markets and expanded trade on fair terms as part of a national economic strategy. We strongly support that policy. Government needs to strive for relative trade balance, particularly with Japan, in order to assure equal access to foreign markets for U.S. goods and services; to use U.S. trade laws to prevent unfair practices by foreign competitors; and to encourage competitive exchange rates.

We look forward to working with the administration and with Congress toward that goal.

Thank you, Senator.

[The prepared statement of Mr. Pestillo follows:]

PREPARED STATEMENT OF PETER J. PESTILLO

Ford is pleased that the Committee is considering issues that affect automotive industry competitiveness and I've been asked to comment on trade issues.

Obviously the major responsibility for competitiveness is the industry's and we believe we have a good story to tell. Our efforts on quality, productivity and teamwork have paid off in the marketplace.

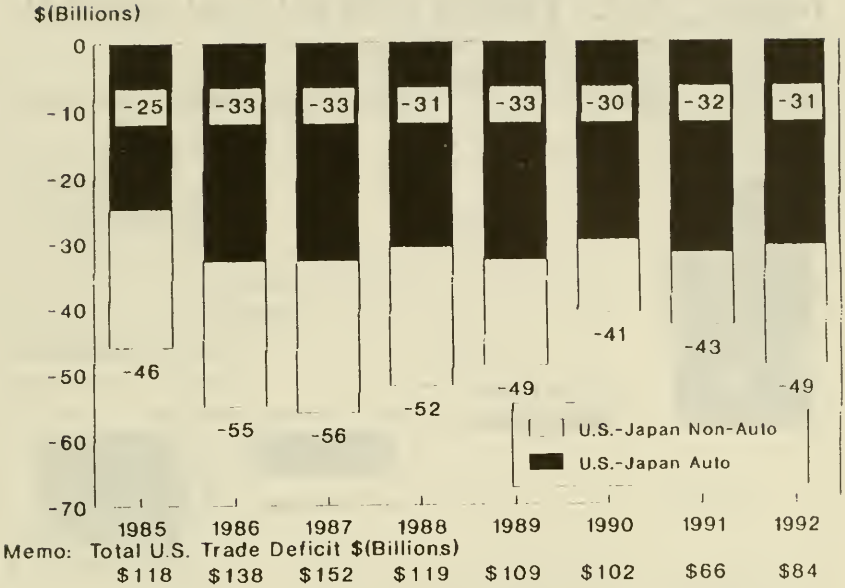
- The Ford Taurus was the best-selling car in America last year.
- Five of the ten top-selling vehicles in 1992 were Ford products.
- For the 11th consecutive year, the Ford F-Series pickup truck was the best-selling vehicle in America.
- Nine out of the ten most productive North American assembly plants are ours.
- Ford was the only company—domestic or import—that increased both car and truck market share last year. Ford's car share was up 1.7 points.

We're confident of our ability to compete against anybody in the United States or anywhere in the world, provided we get a fair shake. But not all of our competitors are playing by the same trade rules—which has a major impact on our overall competitiveness.

This is a problem not just for companies, but for nations. Trade friction and imbalances threaten the global trading system that has been an engine of growth for economies around the world—particularly Japan and Europe. I-ast month, Japan announced a 1992 trade surplus with the rest of the world of $107 billion—the highest surplus ever for any nation. And the Commerce Department announced that our bilateral deficit with Japan for 1992 was more than $49 billion!

Every Administration since President Nixon has accepted Japanese government commitments and promises to reduce the trade imbalance—but the deficit continues to grow. The total U.S.-Japan trade imbalance has increased the last two years—and the automotive portion of the deficit has remained constant at about $32 billion a year since 1986 (Chart 1). All this, despite assurances by whatever Administration was in place at the time that the Japanese were sensitive to our concerns, and that programs were in place to address the causes of the imbalance.

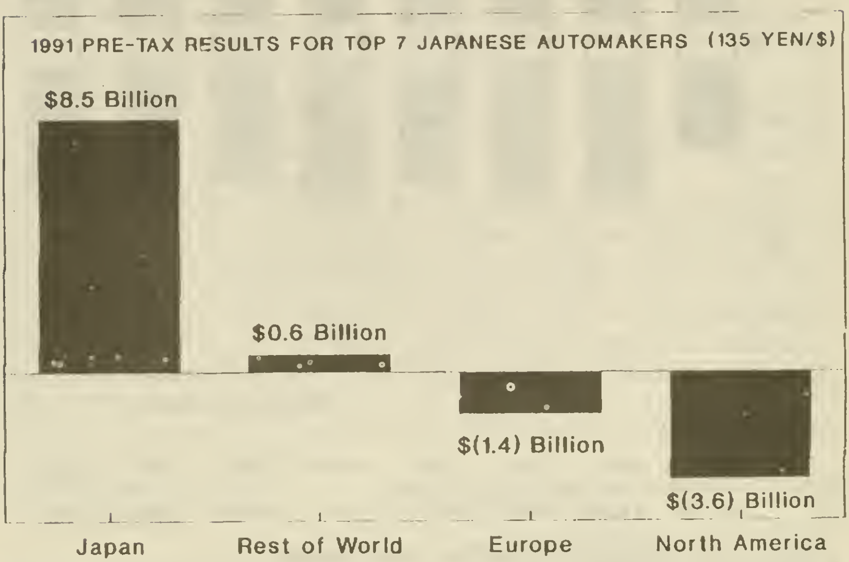
U.S.-JAPAN TRADE DEFICITS
1985 - 1992



There is ample evidence that something is out of whack.

- Japanese manufacturers control nearly a third of the U.S. car market and about 11 percent of the market in Europe—while, at the same time, the combined total of all vehicle imports into Japan, all the cars from everywhere else in the world, amounts to less than 3 percent of that market.
- The Japanese dominance of their home market has allowed Japanese auto producers to subsidize losses in the U.S. and Europe. In 1991, the top seven Japanese automakers earned $8.5 billion in Japan while losing $1.4 billion in Europe and $3.6 billion in North America (Chart 2). This is not a one year phenomenon—in fact, over the past four years, Japanese producers have earned an average of more than $9 billion in their home market while losing an average of more than $3 billion in North America and almost $1.4 billion in Europe.

JAPANESE AUTOMAKERS MAKE ALL THEIR PROFIT IN JAPAN



• With capacity of about 15 million vehicles in Japan, automakers there produce twice as many vehicles as they need to meet home market demand. And they continue to increase capacity—adding almost one million units of capacity in the past four years—despite the estimated 11 million units of worldwide excess assembly capacity and severe recessions in many economies.

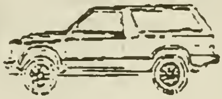
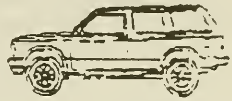
• A recent industry analysis found vehicle dumping—either selling at a lower price here than in Japan or below cost of production—across all car segments and by all major Japanese producers. On average, we found dumping margins of 14 percent or $1,700 per vehicle.

• Since 1986, the U.S.-Japan automotive deficit has failed to decrease much despite the fact that Japanese producers now assemble nearly two million cars and trucks in this country. The reason for this is simple—transplants continue to use substantial levels of imported parts. An analysis of the transplant suppliers shows that most are Japanese-owned or joint ventures using high-value-added components imported from Japan. The result is lost U.S. jobs—half-a-million, by some estimates.

• By contrast, Ford and GM, combined, have nearly 25 percent of the European vehicle market, but there is no trade deficit between the U.S. and Europe because both Ford and GM maintain very high levels of European content.

• And some foreign manufacturers have been allowed to manipulate U.S. regulations. The classic example is that of an imported, Japanese four-door sport utility vehicle which is called a truck for almost all U.S. regulatory purposes—emissions, fuel economy, gas guzzler and luxury taxes. It's also called a truck under the Japanese VRA—and this is no restriction since the VRA covers only cars. But that same sport utility vehicle is classified as a car only for U.S. tariff purposes to avoid a duty which has been costing the U.S. Treasury $200 - $300 million a year. All this results in the most favorable treatment in all cases (Chart 3).

TAKE THE TRUCK TEST!

	MULTI PURPOSE VEHICLE	
	 TWO DOOR	 FOUR DOOR
These vehicles are called **trucks** for emission purposes.	Truck	Truck
They are also called **trucks** for fuel economy rules.	Truck	Truck
What's more, they're called **trucks** for gas guzzler and luxury taxes.	Truck	Truck
But when it comes to tariffs, the one on the left is a truck and the other one's a **car**!	Truck	**Car?**

This name game allows importers of MPVs to dodge more than $300 million a year in duties at the expense of U.S. workers and taxpayers.

Stop manipulation of our tariff rules.

Support legislation to close this loophole.

We believe that both business and government have roles to play in correcting the trade imbalance. U.S. manufacturers must make major efforts to compete in Japan. Recently, Ford, GM and Chrysler have each lowered the price of selected models, strengthened distribution networks, increased advertising expenditures and visibility and developed more right-hand-drive products for sale in Japan. But entry isn't going to be easy or ever match the Japanese levels here because we were kept out of the Japanese market for nearly fifty years. That's in sharp contrast to the

easy access Japanese manufacturers had to our market. Ninety-five percent of all U.S. car outlets sell at least one import brand as compared with one percent in Japan.

It's also up to us to continue our efforts on quality and productivity—to produce high-value products to meet ever-increasing customer demands.

The U.S. government should insist that the Japanese achieve relative trade balance on a specific schedule. We've suggested a five-year time frame with regular monitoring. Japan can make its own decisions as to how to achieve this goal—by importing more, or exporting less or both. What we need is results-oriented policy, not "regrets" about not meeting targets, as in the recent semi-conductor case.

Also, the government needs to make trade policy a central part of a national competitiveness strategy. For too long, trade has taken a back seat to other foreign policy concerns.

And, finally, the government should correct certain policies on its own—like MPV tariff rules—that operate to the advantage of foreign manufacturers. Such a move would show the Japanese that we are now serious about achieving fair trade.

President Clinton has stated that the United States will insist on fair trade rules in jnternational markets and expanded trade on fair terms as part of a national economic strategy. We strongly support that policy. Government needs to strive for relative trade balance—particularly with Japan; to assure equal access to foreign markets for U.S.-made goods and services; to use U.S. trade laws to prevent unfair practices by foreign competitors; and to encourage competitive exchange rates. We look forward to working with the Administration and with Congress toward that goal.

The CHAIRMAN. I thank you. I thank each of you. It is very heartening. Mr. Lutz, you say you can compete with any company but you cannot compete with any and every country. I attested to exactly that 34 years ago when I was testifying before the old U.S. Tariff Commission. And Tom Dewey was a lawyer for the Japanese chasing me around the hearing room; I was on the other side of the table.

And now we are still seeing it and beginning to realize it, because in textiles we were told then, do not worry about it, that is low skilled and what do you expect these emerging countries from World War II to make, computers and airplanes? And now we have got them making the computers and now we have got them making the airplanes. And now my senior ranking member, former chairman, is now with me. [Laughter.]

And we are all going together. Sometimes, yes. That airbag, that was about 20 years ago or more, and I can see us going down—we went down in front of the old Senate—well, the Senate office steps, and Chairman Magnuson of this committee was about to get in it, and I hope that this does not blow up, and he sat in it and it blew up right in his face. That offset the airbags for a good 15 years, I can tell you that. And so it goes, right.

And I want to yield here because we have got a distinguished group here. Let me ask about domestic content. I can get into a lot of these things. And by the way, Mr. Lutz, we held that hearing in our subcommittee of appropriations to get the $2 billion loan and then my friend Iaccoca went down to Mexico with the money.

Specifically, how much of your production is in Mexico or how much—not just you or any of you, but collectively cars produced in Mexico and coming back into the United States?

Mr. LUTZ. Mr. Chairman, Chrysler imported 63,000 cars and 32,000 trucks out of 234,000 total vehicles produced in Mexico. It is comprised of some Dodge Spirit and Plymouth Acclaims. It is the Dodge Ramcharger, on which we, by the way, have to pay the 25-percent duty because it is a two-door sport utility instead of a four-door sport utility, and that is down to about 4,000 or 5,000 a year.

And it is 31,000 full-size pickup trucks with club cabs, which are only produced in our Lago Alberto plant in Mexico, and which also pay the chicken tax, by the way. So, it is getting to the point where the only people who are paying the 25-percent tariff on some truck products is a domestic producer like us.

I would stress, however, that in total our trade with Mexico is vastly favorable to the United States and to UAW jobs. Because even the vehicles that we ship back from Mexico are overwhelmingly U.S. content. Most of the engines, all of the transmissions, almost all of the sheet metal is produced in the United States and shipped down.

It is a common fiction that Mexico is a cheaper place to produce because of the low labor. In fact, it is not. By the time we have shipped components down to Mexico for assembly in Mexico and then paid the outbound freight again from Mexico, the total variable cost of a vehicle produced in Mexico for us is considerably higher than if we produce it in the States.

So, the question then is, well, why do you do it? Well, the reason we do it is because under current trade rules we must export from Mexico to be able to import. And we are now importing U.S.-built cars into Mexico, all three of us, in increasing numbers.

So, up to now, our total shipments from Mexico, in Chrysler's case, are 234,000 units out of a total production and sales of, presumably, this year around 2.3 million. So, it is really an insignificant fraction and in total the Chrysler balance of trade with Mexico is favorable to the United States.

The CHAIRMAN. Well, is there any substance in this debate on NAFTA, the North American Free Trade Agreement, that there is a provision whereby you can ship the Mexican-produced cars for 10 years tariff free, whereas you cannot in the other direction ship American-made cars down into Mexico for 10 years. Is there some provision in NAFTA to that effect, any restriction?

Mr. LUTZ. Well, NAFTA does call for a gradual reduction and restrictions to U.S.-built vehicles into Mexico. But at the same time, NAFTA would provide for a very rapid reduction in the 25-percent tariff on truck products.

So, we have a high degree of confidence that—and I think I speak for all three, a very high degree of confidence that NAFTA, as presently constituted and with whatever additional safeguards that the administration would seek to impose, is fundamentally a good deal for the American automobile industry and American suppliers and, in fact, for American workers. We believe that all told, it will work to the considerable advantage of the American automobile industry and, frankly, we do not see an erosion of jobs from the United States to Mexico.

The CHAIRMAN. Mr. Hoglund, on that particular score, I remember about 10 or 12 years ago I bought a Pontiac LE. I used to represent a Pontiac dealer and I wanted to make sure I had me an American-made car. And when I got it home a neighbor was asking me how much I paid, I was looking back at the sticker price, it was FOB Montreal. I had bought me a foreign car. Now, that picture is changed, I supposed, with the Free Trade Agreement with Canada, because we have got relatively the same standard of living.

And perhaps—I am not agreeing necessarily, I am looking at it very closely and finding out the different requirements with Mexico and the standard of living down there and the wage difference and the environmental. We have had GAO studies that while they have environmental rules, the corporations that were U.S. based were not complying and did not have to comply, those kind of things.

It has been said that General Motors is the largest employer in Mexico with some 41 plants, 57,000 employees. That they are closing plants in the United States not on account of the recession or bad times in the United States, but on account of good times in Mexico. What is your comment?

Mr. HOGLUND. We have been in Mexico since 1935 and produced vehicles in Mexico for the Mexican market since that time. And basically, those vehicles that we produce in Mexico are produced with a significant number of components that are manufactured in the United States and shipped down to Mexico City.

We have built some plants in the maquiladora area on the border. And, frankly, those plants have enabled us to maintain employment in the United States. For example, we assemble wire harnesses in the maquiladora area and those wiring harness assembly operations maintain between 8,000 and 9,000 jobs in Warren, OH.

And one might ask how do you rationalize that? If we had to build and assemble those wiring harnesses on the labor rates which we pay in Warren, OH, we would be out of the wiring harness manufacturing business totally because we could not compete with worldwide component labor rates, because our union agreements generally apply automotive labor rates to our component operations. So, basically, the maquiladora program has enabled us to maintain component manufacturing in the United States at high paying UAW labor rate jobs.

The CHAIRMAN. Mr. Pestillo, I understand that the big three were prepared to bring a dumping case. You attested to the dumping margins. You attested to the fact that they have been making billions, $9 billion, let us say, the Japanese auto manufacturer, $9 billion back in the home market, losing $2 to $3 billion a year here in the American market, and having about one-third, 30 percent I guess Japan alone, of the American market.

And you just cannot continually, as you have gotten competitive here—and we all know the Taurus and we welcome it and your particular innovations, General Motors and otherwise. And now you have, let us say, become competitive, but you still cannot stay in business against loss leaders.

I practiced in that antitrust field of law with Sherman and Robinson-Patman. If you are not going to bring that dumping case because you do not want to look like you are anticonsumer, what about the Department of Commerce? Would you object to the Department of Commerce bringing that case for you?

Mr. PESTILLO. Well, let me delve into it a little bit, Senator, because it is significant. We have come to be, unfortunately, pretty good students of dumping, having examined a couple of cases. We proceeded with the case on minivans and we are quite satisfied. That case is now on appeal and we feel comfortable with the correctness of our position.

This case would have been a full-car case, that is all cars, and it would have been the largest dumping case probably brought. The reason we have not heretofore brought it, or we have, let us say, suspended our activity in it, is we felt it was risking so draconian a remedy that it might be wiser to achieve an overall trade policy, if you will, and that might have thwarted it.

So, we felt it was appropriate to give the administration which had just got here time to deal with it. Now, Secretary Brown has indicated an interest in it very clearly, and has expressed a willingness to proceed if, I guess, relief is not provided over time.

We would like to achieve trade balance one way or another. If a private remedy can be reached, that is between our Government and the Japanese Government, it would probably make more sense and we would certainly favor that, but we are not going to sit on our hands forever either.

The CHAIRMAN. Very good.

Senator Danforth.

Senator DANFORTH. Thank you, Mr. Chairman. Mr. Lutz, right now the Mexican tariff on cars that would be imported from the United States is 20 percent and our tariff on cars imported from Mexico is 2½ percent. Now, the NAFTA agreement immediately reduces the Mexican tariff from 20 to 10 percent, and then over a period of years phases it out.

Clearly, the existing situation is a disadvantage to American auto manufacturers and autoworkers, because of that differential. And clearly, insofar as NAFTA reduces and then eliminates the difference, NAFTA is in the best interests of U.S. autoworkers, is it not?

Mr. LUTZ. Well, we certainly feel so. And, again, I would like to correct the impression that we currently have a negative balance of trade with Mexico. We do not. Automotively, we do not because of the very very high U.S. content of Mexican vehicles built by the big three down there.

But where we currently have a very significant hurdle is in the ability to import built up vehicles out of the United States for sale in the Mexican market. And with the rapidly emerging middle class in Mexico, there is a huge demand for American products.

And I think it is highly gratifying that it is a market that has a strong national predisposition toward American products, as opposed to Japanese products. And we think that the provisions of NAFTA are going to permit us to sell a lot of U.S.-made vehicles and components and that it will be of huge benefit not only to the big three, but to all of our suppliers and to our workforce.

Senator DANFORTH. And also, the maquiladora program, it may be operating to the benefit of U.S. manufacturers, as Mr. Hoglund said, but a lot of people would say that it is terribly unfair to have the situation that now exists in Mexico on the border where they have a huge duty-free zone, and what they are doing is importing duty free on the condition that the products that are manufactured in those plants are exported into the United States.

The so-called duty drawback on which the whole maquiladora program hinges is terminated in NAFTA, so in that regard also, NAFTA would remove this huge magnet which has created a situa-

tion where U.S. auto manufacturers have artificially been induced to build auto plants in Mexico. Is that not right?

Mr. LUTZ. That is exactly correct, Senator.

Senator DANFORTH. I cannot understand the argument that NAFTA is against the best interests of U.S. autoworkers, because it seems to me that it is the opposite of the case. The huge tariff differential, plus the maquiladora program, is terribly unfair to U.S. autoworkers. And it seems to me that we should have a very high priority in this country in getting rid of those unfair trade practices that now exist in Mexico, and that is exactly what NAFTA is intended to do.

Mr. LUTZ. We could not agree more, sir. We believe it is in the interests of the U.S. auto industry, its suppliers, and its workers.

Senator DANFORTH. Mr. Pestillo, first of all, I am a very satisfied customer, I like my Explorer a lot, it gives me no problems, fun to drive.

Mr. PESTILLO. There is a great relief in that, Senator. [Laughter.]

Senator DANFORTH. When I look outside and see the snow, hey, I have 4-wheel drive. [Laughter.]

To you, is it any consequence whether or not the trade deficit with Japan is created by unfair trade practices? I mean, what your after is balance, which means that whether the trade practices are fair or unfair does not make any difference to you, you just want numerical equality.

Mr. PESTILLO. Well, I do not think you will achieve equality with this imbalance without remedying some of the unfair practices.

Senator DANFORTH. Well, you could if you just insisted on balance. In other words, that was the problem, in my view, of the old Gephardt approach. What you are now saying is that you have not voluntarily agreed not to enforce antidumping laws, at least with respect to the entire fleet of cars coming in from Japan, because you are now focusing on the issue of balance.

My view is that what we should be getting at is unfair trade practices by the Japanese Government, not simply the question of balance. Balance can be created by consumer preference. Imbalance can be created by consumer preference. If one country ships to another terrible products, and the other country ships very good products, that is going to create an imbalance that has nothing to do with unfair trade practices.

You talk about balance, though, you are not talking about unfair trade practices, you are talking about dollar equivalents, are you not?

Mr. PESTILLO. Yes, but I think within the imbalance are unfair trade practices. Let me give you the minivan example. When we proceeded with the van case, it was anxiety on the part of the Japanese that caused them to raise prices. We took a significant part of the market and greatly increased share. Now that is remedying an imbalance at the same time dealing with an unfair practice and forthright.

Senator DANFORTH. But my view is you should focus on unfair trade practices and not focus on numerical balance, because numerical balance does not have anything to do with unfair trade practices necessarily. It may. I mean, our hope has always been that we produce products that are as good as anywhere in the world. I

believe that. I believe your products are as good as the Japanese products.

But to take that position and you say well, if given the so-called level playing field, then we will be able to compete. And therefore, what our policy should be is to insist on the level playing field. The level playing field meaning the rules are the same, everybody competes equally, government policies are fair, is a different approach than to say well, we want numerical balance. They are just two different issues.

You are saying, as I understand your answer to Senator Hollings' question, the auto industry is even enforcing the antidumping rules, not even bringing an antidumping case because that is enforcing the laws against unfair trade practices because your whole focus is not on unfair trade practices, it is on numerical balance.

Mr. PESTILLO. Well, no, Senator. I said for the moment we are not pursuing that remedy. That is not to say that its enforcement is either within our hands or one of indifference to us. We are pursuing balance, arguing that there is a long and persistent disadvantage, $32 billion, that has not changed. And it has lasted for a significant period.

I guess we would argue that an unadjudicated remedy might be the better way—that is, let the administration pursue a host of choices with the Japanese that are mutually acceptable. This is a large and worthy trading partner with whom we are dealing, and we are suggesting that remedies be dealt with informally, if you will, at the onset, but we are not indifferent to unfairness, certainly.

Senator DANFORTH. But what you call informal proceeding, informally means that what you just want is an agreement with respect to numbers of imports, numbers of exports. And as you testified, you do not care whether balance is achieved by limiting imports or by increasing exports, just so it is balanced. I mean, I do care about that.

I think that the effort should be to remove unfair trade practices which are impediments to U.S. exports, not to create artificial schemes of keeping out the products of other countries for the sake of balance. Do you see the difference?

Mr. PESTILLO. I do. But merely balancing auto exports and imports will not overcome the Japanese deficit. Our suggestion is there is more to be done than that. Two-thirds of it is auto, obviously. But there is still significant deficit to be dealt with.

Senator DANFORTH. I am just talking about the auto industry, and there is a difference between balance on the one hand and enforcing the law on the other hand.

Mr. PESTILLO. I agree.

Senator DANFORTH. You are advocating balance, I am advocating enforcing the law and let the chips fall where they may.

Mr. PESTILLO. But again, if we were merely to deal with the dumping issue, that will not alone rectify the trade imbalance.

Senator DANFORTH. I would like very much for the auto industry to inform me, and I ask you, I hereby ask you, to inform me as to all of your complaints against Japan with respect to unfair trade practices. I have made something of a career of criticizing Japan's

unfair trade practices, and believe me, I am willing to continue to do that.

I also would strongly advocate that the legal remedies that are there, especially in antidumping, be enforced by the auto industry to the maximum extent that you can manage that case.

Mr. PESTILLO. But, Senator, we can only pursue them. The enforcement is out of our hands.

Senator DANFORTH. Well, you can institute a case.

Mr. HOGLUND. In his opening comments, the chairman indicated that for some reason there is an intriguing public relations environment in this country that if we had brought the suit that somehow we were anticonsumerist, and I think that was one of the major concerns that we had in bringing the suit at that time, especially with——

Senator DANFORTH. You are right.

Mr. HOGLUND [continuing]. That is—we are worried about that, frankly.

Senator DANFORTH. I understand that. I really do. I mean, I have faced that myself. I mean, every time I suggest that we enforce the laws against another country people say oh, well, you are bashing the other country or you are a protectionist. You are not a protectionist if you enforce the rules that have been negotiated in international forums for fair trade. That is simply enforcing the rules of trade. Antidumping cases are not anticonsumer just like antitrust cases within the United States are not anticonsumer. They are proconsumer because they enforce the law. But numerical balance which says we do not care if it is unfair or fair, we do not care if it is restraining imports or increasing exports, however we accomplish it that we want balance that really is anticonsumer.

Mr. HOGLUND. We understand, and in this room we understand what you are talking about and the reality of every day in the dealer showrooms and in the Nation's press there may be a different environment. I think, too, on the balance issue, and Mr. Pestillo indicated that here we have 1 percent of—or in Japan—1 percent of the dealers distributing our products and in this country 95 percent of the dealers have at least one import line.

And so yes, that probably would appear on our list as being a trade barrier which is difficult for us to overcome. I think it would also be very difficult in this arena to address that, and that is why we say if you move at the balance side of the problem, that they will have to address those kinds of issues on their own, that perhaps we cannot——

Senator DANFORTH. I just hope you do not do it that way. I mean, let us proceed with antidumping cases with whatever you want to do, countervailing duty cases, 301 cases, we will almost certainly reinstitute the Super 301. My hope is we will be very, very aggressive in pursuing the rights we have under international agreements with respect to fair trade. But there really is a big difference, and I think all of us in any kind of public forum should try to explain what that difference is between enforcing the rules and protectionism. There is all the difference in the world.

I have other questions, but I would yield.

The CHAIRMAN. Very good. Senator Bryan.

Senator BRYAN. Thank you very much, Mr. Chairman. Let me congratulate each of you, Mr. Lutz, on the success of your LH platform. When you had a chance you showed the mock up of that in 1991. We were out taking a look at your facility, Mr. Hoglund, on the Cadillac Seville STS, a superb piece of machinery, and it proves once again that Americans can build a world-class automobile. And Mr. Pestillo, to Ford on the preeminence of the Taurus as the No. 1 selling automobile in America.

As each of you know, I have had some differences over the years on specific issues with the auto industry. But there is no disagreement as to the importance of the auto industry to America's economy and to our industrial infrastructure. Let me pursue a couple of issues, one of which, NAFTA, was touched upon by Senator Danforth.

The concern about NAFTA is not just with respect to autoworkers, not an issue in which it is strictly an issue that is of concern to organized labor. There is not a worker in America that does not have some sense of anxiety as he or she has seen an exodus of American jobs and the concern with the enormous wage differentials between what we pay our workers in America and what is paid in Mexico, the feeling that somehow those workers are going to be disadvantaged, that jobs are going to shift from America, south of the border to Mexico.

I appreciate the colloquy that you have had with Senator Danforth, but let me ask you specifically, you all look to the long term, you all have plans and terms of your expansion. Most of you are going to a substantial downsizing in terms of plant capacity right now. We all understand that. That has been painful, tremendous economic dislocations for the communities affected.

My question, specifically assuming that NAFTA is approved, do you have further plans at this time to expand manufacturing capacity in Mexico?

Mr. LUTZ. Speaking first of all for Chrysler, I have to say that if we had a strategy of using Mexico as a low-cost springboard for backshipping products or components into the United States, there is nothing under the present system that would prevent us from doing that. I mean, that strategy could be pursued right now.

Senator BRYAN. And I do understand that.

Mr. LUTZ. The only thing that NAFTA will do is help make it a two-way street. Right now the flow can essentially only come one way without a very large tariff burden. But under NAFTA there will be, as Senator Danforth says, a much greater potential for a two-way street.

Now, speaking for Chrysler, we will be making—and these are all announced investments—we will be putting up a new truck plant somewhere in the northern portion of Mexico which replaces our current truck plant which is in Mexico City and is frequently shut down by the Government of Mexico City on days when air pollution is heavy, and we have been given strong encouragement to move out of Mexico City. In fact, we are right next to the Corona brewing company, and some of you beer drinkers may want to think about that.

Senator BRYAN. That does provide an interesting flavor, does it not? [Laughter.]

That is why you put the lime in the Corona beer. [Laughter.]

Mr. LUTZ. We have some new full-sized pickup trucks. The club cab versions will continue to be sourced out of Mexico as today. We will have a convertible coming out of Mexico similar to a convertible we have coming out of Mexico today. And one of our new engine families will be dual sourced out of Trenton, MI, and Saltillo, Mexico, just as today.

But if we look at our 5-year capital spending plan, and again, I am sorry to say I am not specifically prepared to answer these questions today, but Chrysler certainly can provide the data to this committee.

In our 5-year spending plan, I am sure that the percentages of capital spending in Mexico versus capital spending in North America or in the United States, those percentages are either equal or down from what they have historically been.

Senator BRYAN. Well, you can understand the concern, Mr. Lutz.

Mr. LUTZ. Well, sure.

Senator BRYAN. Every time you announce the construction of a new plant in Mexico, I mean, there are concerns. I do not happen to come from a State that is an auto-producing State, but I can tell you, I mean, it sends a rippling effect across the economy of this country in terms of people's concerns. There is not a town hall meeting that I have that people that are workers, has nothing to do whether with organized labor or not.

Most Nevadans are not part of an organized labor collective bargaining agreement. They sense inherently that this is going to be damaging to them. And I am not here to debate your plant investment strategy right now. But let me turn to you, Mr. Hoglund, and ask your response in terms of GM's capital investment plans in Mexico, if any.

Mr. HOGLUND. We, too, are building a new assembly plant largely because of the environmental situation in Mexico City, and have announced it and have announced the plant for that reason. The only additional product strategy that we announced is that indeed we currently assemble some product in Mexico City and Mexico for sale in Canada.

We are looking at bringing that product back to Lansing, MI, adding a third shift, and building it in Lansing for sale in Canada, and moving it out of Mexico City. We can do that primarily because of the freight savings offsetting the labor rate differential, and everybody wins.

We will get those forward-planned capital expenditures for you. We certainly are not planning—the last thing that this hemisphere needs is additional vehicle assembly capacity, considering the massive excess capacity we have in this country.

So, other than the issue of replacing some existing assembly capacity in Mexico, we are not planning to do any further major expansions at all.

Senator BRYAN. Well, I am pleased to hear that. You are not unmindful of the fact that your critics suggest that your decision, which was highly publicized last year, of whether to shut down an auto assembly facility in Michigan or Texas, when earlier the analysis seemed to suggest that overwhelmingly the Michigan facility should survive was made based upon the proximity to Mexico, and

I am not prepared to endorse that criticism. I do not know whether that is true or not. But it certainly—again, it fuels the concern that American workers have.

Mr. HOGLUND. Senator, we appreciate that that was a reaction. It is unfortunately more a reflection of the lack of credibility of American industry than it is reality. I can assure you, that it had zero consideration in that decisionmaking process.

I also understand that those people that were affected by the plant closing in Willow Run did not believe that.

Senator BRYAN. And I think all of us can understand the nature of the credibility problem that you have when you close down somebody's facility and They are out of a job.

Mr. Pestillo, how about Ford?

Mr. PESTILLO. Mr. Chairman, I can offer some specificity, because we recently overlaid our forward plans on a grid with and without NAFTA, so we have looked at it just as you pose it. We have three major facilities in Mexico, one of which happens to be on strike today which takes some of the joy out of being in Mexico, but that does not enter into our plans.

Senator BRYAN. That does not give a lot of us a whole lot of heartburn.

Mr. PESTILLO [continuing]. With NAFTA, we would effectively rationalize our production in NAFTA. It is a small market. For example, we make Thunderbirds there which would easily be sourced from Lorain, OH, which we would do with NAFTA, and we would put in Mexico a small overload of our new world car that we cannot effectively produce in one full plant in America. So, it would take about 15,000 units from Mexico. We would effectively ship back Lincolns, Thunderbird, and the rest of our American products. And so it would load jobs in our U.S. plants and probably be net positive well in excess of 1,300 jobs and some additional overtime hours. So, it would be quite positive to the U.S. autoworker.

Senator BRYAN. Mr. Pestillo, I supported the fast track in the last Congress, and I really have not made a judgment on NAFTA. But I must tell you that recently I read an article. It was the same group that was used by the former administration to advocate the benefits of NAFTA to the United States. That same group apparently had done a long-term analysis which apparently we did not know much about, and the conclusion with respect to the long-term implications was much less supportive of NAFTA.

I am going to reserve judgment. I am not here to debate it today, but I do have some concerns.

Mr. Chairman, could I ask a couple of other questions? I do not want to abuse the time.

Mr. PESTILLO. Mr. Chairman, if I could comment on that, it is the suggestion that the trade balance will be initially positive because of the shipment of machine tools away and then product back, ultimately. And it goes from farm products and the like down through small products. I think both Mr. Hoglund and Mr. Lutz have suggested that we are so capital intensive a business with so much surplus capacity that we do not envision any significant large auto activity there for that reason. We are not as mobile as some of the rest.

It is a valid apprehension, there is no question about it, but there is no applicability to us, in our view.

Senator BRYAN. Let me talk about two issues in terms of policy, without getting into the specifics: fuel economy, and you know that I have had some interest in that area, as well as clean air. We have had a number of discussions in which I think a number of you, if not all in the industry, recognize that maybe those ought not to be competitive advantages inter se between General Motors, Chrysler, and Ford, but they address some societal concerns. And you address that, at least in part, in your testimony.

Do we need to do anything from a legislative perspective to facilitate your ability to work with each other on working on those solutions? Now, the battery consortia is a research effort, but—and we have relaxed, as you know, some of the provisions of the antitrust laws to make sure that you are not subjected to legal action. Do we need to do more to help you work to meet those goals, both in terms of fuel economy, clean air, and some of these other broader issues that it seems to me transcend just competition between manufacturers but achieve goals that society find are important? And clean air and fuel economy, I think, are two that most people agree with.

Mr. PESTILLO. Senator, I do not know if I can be conclusive, but I would comment, first of all the Congress has provided significant help, and the issue of consortia has advanced dramatically. I think, Bill, we have what—eight in place at this point?

Mr. HOGLUND. Eight or nine.

Mr. PESTILLO. The reason I have some apprehension about saying "you have done a lot, we do not need any more" is I have some concerns about electric vehicles where we, indeed, have a consortia at work and, indeed, we are facing one of the Japanese.

Our efforts so far would suggest there is not an easily available commercial market for this. And I would reserve decision on whether more needs to be done in that area, and perhaps some others, but I would not want to fail to suggest that we have had considerable support from the Congress for that which has been done.

Mr. HOGLUND. I think in that area, as I indicated, we have begun working with the national labs. The administrative problems in putting together some of those agreements makes working with the national labs less easy than with a private laboratory. And indeed, we propose using the national labs to solve our national environmental, fuel economy, and some technological problems. I think if we can look at some of the administrative procedures involved in working with the national labs, it would help out.

Senator BRYAN. Well, we would certainly be interested, at least this Senator would. This committee has processed legislation, as you know, to enable the national labs to work with the private sector, and I happen to support that and personally would like to see that continue. Mr. Lutz?

Mr. LUTZ. I would echo what Pete Pestillo and Bill Hoglund have said. I would say, though, that—and this is perhaps an answer that is a little broader than the question you asked. If we are really, truly interested in pursuing the societal goals of less pollutants in the air and higher fuel economy, I happen to believe very strongly and very emotionally, and you and I have had this conversation be-

fore, that that goal can best be attained by having the market mechanism work for consumer behavior.

Because it may be possible to produce very expensive technology to achieve greater fuel economy and less resultant pollutants per mile. If that technology is expensive and it will be because using lightweight materials in cars like aluminum or composites is going to drastically increase the price of automobiles, and the reaction on the part of the public is going to be, thanks very much, I'll keep the one we've got. Because right now, at our current fuel prices which, inflation adjusted, are lower than they were in 1972 before the first oil crisis, and the milage of our cars has doubled, there is no incentive—no incentive for the American citizen to buy an economical, lightweight, fuel efficient car.

And the type of legislation we have on the books today and contemplated increases in CAFE literally put us totally at war with our public. Our public demands large vehicles with V6 and V8 engines, and lots of options. And we then have to try to force a mix of small 4-cylinder vehicles with no options.

The other thing about the low fuel prices is it permits all of the gas guzzling vehicles of the sixties and seventies and very early eighties, many of which are in very poor condition and which pollute, in many cases, 100 times more than a modern vehicle, there is also no incentive whatsoever for people driving these 7 or 8 mile-per-gallon vehicles to get out of them and into a modern, more fuel efficient vehicle

So, some day, I predict, the United States is going to have to address the issue of its fuel prices if the country is really serious about improving overall fuel usage and cleaning up the environment. And we all know that Europe and Japan are both highly mobile countries but operating at $3.50 a gallon. Nobody would advocate that, but on the other hand we have got to say if we are going to be focused on reaching societal goals of better fuel economy and less pollution, I will guarantee you we will not get it done at $1 a gallon.

Senator BRYAN. How about the Btu?

Mr. LUTZ. The trouble with the Btu tax, and this is unfortunate, is it feeds through our whole cost structure. It makes plastics more expensive. It makes rubber more expensive. It makes steel vastly more expensive. It makes aluminum horrendously more expensive, so that we have a whole stack up of added costs through our supplier base, and including the energy that is required for us to run our own plants. And that, ironically, is an added burden that only the domestic industry has to support because the imports are not getting the added Btu tax.

I have to tell you we greatly would have preferred a gasoline tax, but as we all say, you know, nobody is going to like all facets of the administration's package, and this is one facet that we happen, I think, not to like as much as we would have liked the straight fuel tax.

Senator BRYAN. Let me just respond to your comment about the market forces. I think the market forces clearly have a role to play. And, frankly, some of these policy questions you've talked about in terms of fuel price are not mutually exclusive.

But at the risk of revisiting a little bit of history, I mean your predecessors sat at this table long before I was a member of this institution, our chairman was a member, and indicated back in the mid-1970's that the kinds of things which we all applaud in terms of your engineering skills could not be done—impossible to achieve, could not be done.

And I think probably one of the most specific points that I look at—I think each of you have a model that would compare. But the most fuel efficient automobile that Ford made—the largest car that Ford makes today gets better fuel efficiency than your smallest automobile which you had on the market in 1974, which is a great achievement.

Now, I am not sure that would have come about just of the market forces if some of us, including the ranking member, Senator Danforth, who was very interested in safety issues over the years—as you know, we did not always agree on that issue, and so I would respectfully suggest that perhaps there is a role for both.

Mr. HOGLUND. I think there is a role for both. And I do not know if you have seen the data—the bottom line here is fuel consumption. And if you look over the last 20 years, a correlation between fuel consumption and fuel prices is almost one-on-one. It is so dramatic that it really cannot be ignored.

I would say that the downsizing, the massive downsizing that my company did starting in 1978 was not CAFE driven, it was customer driven. And, you know, we put $45 billion in smaller cars in a 5-year period, and I have to tell you that was a market-driven response. And we were planning on a $2 gallon cost of fuel by 1985, and with it ending up in the $1 area, it was a massive mistake.

And that is, I think, what we are talking about is we need some consistency in economic variables in order to plan, because we are a long-term industry. And we need to work together to decide what we are going to do in this area because I can tell you my company cannot stand one more $45 billion downsizing and have it go the wrong direction.

Senator BRYAN. Mr. Chairman, thank you very much for your courtesy in allowing me to explore this at perhaps a greater length of time.

The CHAIRMAN. Well, let me thank you. And let me say that we agree that we are not, in this Government, going to require a $45 billion downsizing but there has got to be an objectivity here now because the CAFE standards did drive the customers to do it. There is no difference. You said it was not CAFE driven, it was customer driven. The customer was looking for fuel economy efficient cars specifically, Mr. Lutz.

Mr. HOGLUND. At $1.70 a gallon, Mr. Chairman. At $1 a gallon, he is not looking for fuel efficiency.

The CHAIRMAN. Well, you have got a fellow that has been recommending a $10 a barrel import oil fee rather than the Btu or VAT. I am agreeing with you on that. But, Mr. Lutz, I do not know whether it was Ricardo—I apologize for not remembering the vice president of Chrysler, but I had those hearings in the mid-1970's.

And the distinguished Senator from Nevada is correct. You just could not do it—could not do it, and everything else. And, in fact, they got so irritated out in the hall, he called me a S.O.B. I could

not catch him. I did not know who he was. But it was 3 years later or 4 years later he came in, and I had an office—I can see him now up on the 4th floor. And he said, "Senator, I want to apologize. I was the fellow that cussed you out there in the hall. But if we had gone to some more Horizon's and Omni's and everything else, rather than asking for a $2 billion loan, we would be solvent. We would not even be looking for the loan."

So, we have got an experience of hearing from the automobile industry, and right to the point—we are not going to devastate it. That is why we have held up. We have had a majority vote for further fuel economy just to get us to the European standards. They are doing business over there. You are doing business over there.

And right after Desert Shield we came back here to do our jobs. We said yes, we can save the product of Iraq, and Iran, and Kuwait with this automobile fuel economy. And we had a majority vote, but they filibustered us and we could not get closure on it. And we were looking very, very cautiously at it because the entire economy is in jeopardy right at this time, and the automobile industry is a major part of that economy.

But market forces—I like that sound. Why do you folks not quit waiting for the politicians or the political solution? I was in that room yesterday over at that White House, I remember President Kennedy with the Japanese in that room, and we were going to get together and we had that special relationship. And so then nothing ever happened. We have been doing this thing for 30 some years.

There was a fellow up there in Michigan, a famous Governor that talked about being brainwashed. We had Pat Shoate sitting right there in that middle seat, the author of "Agents of Influence," citing the fact that there are 100 American law firms and consulting groups right here in Washington alone representing Japan alone, paid $113 million. Our consummate salaries of the 535 House and Senate Members is $68 million. The people of Japan, on that basis, are better represented in Washington than the people of America.

And you all are getting brainwashed. But consumerism and a valuable trading partner—valued trading predator. My heavens above. That is what they are, Mr. Pestillo. They are not a valuable trading—I do not bash Japan. If I was the Emperor I would run it the same way. It is working. I am bashing Washington, and you fellows will not sober up.

I have talked to your leaders and it is still, well, this is a new administration and let us wait and see. And so if they can stretch you out, I can tell you, for another 4 years—we go through every President the same way. And we are going to have that valuable relationship and everything else. And they just work us around the clock. Right out here in the audience, all these Japanese representatives taking down with tape machines and everything, saying whatever. There is nothing to be secret, but we could not have a lawyer represent any American entity or any one of your companies before the Japanese Diet. That is verboten—1 percent versus 95 percent in the handling of each other cars. The dumping margins—and we are under antitrust laws.

I was told to watch it when you talk to these chief executives now. They are getting together, but they cannot answer questions on pricing because then it would seem to be working together. And

so, your antitrust lawyers—will the camera show the gentlemen are smiling up there—that I should not get into that because of the antitrust laws. They have got protrust. Well, we have got antitrust. You cannot open up a business on the street there in Tokyo unless all the other people on that street vote for it, and what have you. They have got MITI. It works. And they have got all their interlocking things.

That fellow, Boone Pickens, he tried. He bought the thing. And then he figured, well, it would polite to women since he had 26 percent on community property in Texas, his wife had 13, to at least let her in. She would be harmless. They would not let her into the stockholder's meeting with 13 percent.

Valuable trading predator. Now, you hold down to one-third. I mean, to one-third of our one-third. We have got one-third and have one-third of the market and imports, and they are holding down to 11 percent because they are enforcing. Oh, you could not buy a 1992 Japanese Toyota in downtown Paris until January 1, 1993. They took a year to inspect. Now, they finally got the quota arrangements. They know how to operate. Their governments operate. And sit and palaver each other.

Now, I thank you. We got you three together, and you are getting us two together. That is all I have ever wanted is in the dumping laws enforced. We have got 34 bilateral agreements in textiles, and I said I would throw away the textile bill if you would just enforce it. And they finally got a fine young lady over there, Carol Hallett, Commissioner of Customs, and she got the Chinese for $2 billion in transshipment—52 criminal indictments all against the government, because that is the People's Republic of China.

And so this same crowd out here are taking notes. When they were going to appoint her to replace Skinner they said, "Oh no, we cannot have her over there," and everything else. They zapped that poor lady.

So, I am telling you we are into a miasma in here where we have got to get real and let market forces operate. That is all we are asking for. And the market has got certain governmental rules. And if we are going to require antitrust here we have got to require it of the others. And the dumping things, and the cases and everything else of that kind.

So, you cannot have a government playing games. Minivans for EPA and everything else like that is a truck—for tariff purposes is a truck, but for EPA purposes an automobile or whatever. We have got double standards and everything else because the tail is wagging the dog, and we had not gotten together with American industry, and we are finally getting together.

But, you folks, do not wait because I can tell you right now they will stretch you out, and they are working around the clock while we are sleeping, and they are paid, they are making money. And we are going to receptions and trying to get fund raisers. It is a disastrous situation, and we have got to work.

Now, wait a minute, Mr. Hoglund. I do not want you to agree with me in every instance. Could it be your overcapacity is the reason you three executives favor NAFTA, whereas the UAW does not favor it?

Mr. HOGLUND. No, the overcapacity is not related to the NAFTA discussion.

The CHAIRMAN. The other witnesses are smiling. I mean, that is what it is. I am very tenuous about this difference in the standard of living and the requirements down there and how big a market you are going to get where they have got a $1,700 per capita income, where you are going to get a lot more automobiles, if you could raise that down there, and everything else, but we will see about it. That is not your thing.

Let me just ask that question about, if you got Mr. Pestillo a voluntary agreement, I dare say the prices would go up. What is your counter response to that?

Now, you said, let us get an arrangement, let the Government work out an arrangement like they do in Europe, so we work out that particular arrangement. Then that gives you folks a chance to just run up the prices. What about it?

Mr. PESTILLO. Well, Senator, all I can offer is, as Mr. Lutz pointed out, we have had voluntary agreements on limitations with the Japanese. Our prices have lagged the CPI and the Japanese have exceeded it, so we have not priced to their levels yet.

If you look at our behavior in the van case—when the Japanese raised their prices, we did not raise our prices and gathered share. Mr. Lutz' company has suggested to Ambassador Kantor that were the MPV rule enforced properly as we suggest, we would not price to follow the Japanese up.

We at Ford as well have suggested to Ambassador Kantor that we would follow the historical practice we have had of effectively lagging the CPI. We are ambitious to get share, Senator, we are not looking for price.

The CHAIRMAN. So, what you are saying is, 30 percent of the market, or one-third of the market, plus dumping is competition enough.

Mr. PESTILLO. We think left alone we are competition enough. We want the business. We will take the profits that way.

The CHAIRMAN. Thank you very much. Senator Danforth.

Senator DANFORTH. Mr. Lutz, I was interested in your testimony in that when you talked about government policies, the effect of government policies on competitiveness, as I recall, the first thing you mentioned was tax policy, and you talked about the fact that Japan has a value-added tax, and we do not have one in the United States.

Now, a value-added tax for countries that have them is a tax that is refundable at the border. Could you elaborate on your testimony a little bit, and particularly, have you or have any of you access to any numbers which show how that factors into the differential in the price of a car?

Mr. LUTZ. We would be happy to submit them for the record, but I can talk to them globally and I personally have spent a great deal of my career in Europe, first with General Motors and then with Ford, and I know the way the system works over there, which is that a lot of general taxation, general tax revenue in Europe is raised via a vehicle known as VAT.

It differs from country to country, and it is now gradually being harmonized around the EEC, but if we were to take a percentage

of 15 to 17 percent on cost of all goods sold as a VAT, that would probably be pretty close to the ball park.

That means that a European or Japanese-produced vehicle has part of its tax load contained in that variable VAT, variable in the sense that it is only applicable when the vehicle is sold in the domestic market.

The minute that vehicle is exported, the government does not collect the VAT because the vehicle is not traded in the domestic market, which means that part of the tax load that is inherent in any manufactured product is no longer present when that vehicle goes into the export market.

So, a Japanese or a European vehicle hitting our shores contains within it labor, materials, and some taxes, but not all of the taxes, not its fair share of the tax load of that country.

Now, when it comes into the United States the passenger car pays 2½ percent duty versus 10 percent in the EEC, I would point out, and maybe gets a State sales tax on it of 3 or 4 or 5 percent, depending on what State it is sold in.

Now, take a Chrysler minivan produced in St. Louis, MO. It contains the full U.S. tax load because we do not have a VAT, so all of our taxes are collected directly, all of our taxes, all of our suppliers' taxes, they are all in there.

The vehicle now goes to Germany. It pays, first of all, a 10-percent EEC external duty, and now it gets added to it—and I forget exactly what the German VAT is right now, but it is 15 to 17 percent, and so our vehicles not only have the full U.S. tax, but they then also get blessed with one-half of a European tax load when they go over there. That is why people always tell me, "I cannot understand why your American vehicles are so much more expensive in Europe than they are in the United States." You try to take the average customer through this, he just does not understand.

But whenever I talk to Europeans, they are incredulous. They say, you Americans talk about your trade problems, why do you not get a VAT? To them, it is the most logical thing in the world that this gives you a vehicle to legally, by GATT, get part of your tax load out of your export products.

Senator DANFORTH. It is a legal subsidy for exports that every other industrialized country uses but we do not.

Mr. LUTZ. Exactly right, sir.

Senator DANFORTH. I would very much appreciate it if you, in short order—I mean, if you could in a week or so——

Mr. LUTZ. We can, sir.

Senator DANFORTH [continuing]. Get me the numbers by country on what amounts to the per-unit subsidy.

Now, the value-added tax is higher in, I think, Germany than it is in Japan, but what I would like to see is your analysis of the per-unit subsidy and try to make it apples and apples.

In other words, when you start getting into the tariff differentials and so on, you are into really different subject matter, but I am particularly interested in the value of them having a refundable at the border value-added tax and us not having a refundable value-added tax at the border and what that means, per unit, from the various countries. Can you do that?

Mr. LUTZ. Yes, sir, we will do it. We did it a number of years ago, and at the time I recall the figure being somewhere in the area of $400 to $500 per unit, but we will redo the study and we will get you an apples to apples figure, sir.

Senator DANFORTH. Was that Japan $400 to $500, or was that some other country?

Mr. LUTZ. I truly do not recall, sir, but we will redo the analysis and get you a number as quickly as possible.

Senator DANFORTH. All right. Now—but you would think that it is on the average at least $400 or $500 per vehicle.

Mr. LUTZ. I would think so, but I would want to be very cautious with that figure until we can verify it.

Senator DANFORTH. All right.

Now, I wanted to get into the question of the Btu tax, the proposed Btu tax. Now, I take it that within an auto plant in the United States it is a fairly energy-intensive business, is it not?

Mr. LUTZ. Yes, sir.

Senator DANFORTH. I mean, you are not talking about the components yet but the plant itself uses a lot of fuel.

Mr. LUTZ. Or electricity, or both.

Senator DANFORTH. Yes, or electricity, or both, and then you said, Mr. Lutz, in addition to the energy that is consumed making cars in the United States, that the component parts also have a high-energy component. Could you elaborate on that a little bit?

Mr. LUTZ. Well, we have not seen any specific numbers, and I think it is too early to say just what exactly the quantified impact will be on our total materials purchased, and true to form, we will encourage our suppliers to very actively seek ways to offset the rising energy costs through other efficiencies which we are also going to try to do.

But I do not think there can be any doubt that our total material bill due to the Btu tax, especially if you look at materials like aluminum, where the basic bauxite is a very inexpensive commodity and the preponderant cost in aluminum is the conversion cost, or the energy cost for the conversion to the metal, and steel production is highly energy intensive—I think our costs will unquestionably go up, and I am going to give you an order of magnitude guess.

I would say that the cost of our material bill and our own manufacturing would, in order of magnitude somewhere between $50 and $100 million due to the Btu tax.

Senator DANFORTH. Now, what—could you also get me and give me now, if you have it, your best judgment—and I know that it is the best judgment, that is your best judgment and those of the other auto companies, of what you think the per-unit cost of a Btu tax would be on an American car.

Mr. LUTZ. We would have to get it.

Senator DANFORTH. It would be significant, would it not? It would be a significant figure.

Mr. HOGLUND. I know that it varies. I know that I think Stanley Gault at Goodyear told us it was going to cost us 51 cents a tire.

Mr. LUTZ. There is $2 right there, or $2.50.

Mr. HOGLUND. I think it just varies by the process and so forth. We will have to give it a pretty good size. We are painting with a wide brush on the number.

Senator DANFORTH. Could you do your best to give me the best judgment you have on that again in the near future?

Now, let me just pursue this just for a little bit. the Btu tax, unlike a broad-based consumption tax, the Btu tax is not refundable at the border, it is simply a cost of doing business within the United States, the cost of all the components that go into a product and also of assembling the product.

So that unlike a value-added tax, which is refundable and therefore amounts to a subsidy——

Mr. LUTZ. And which the importers have to pay.

Senator DANFORTH. And which the importer has to pay, the Btu tax is a burden on the American manufacturer and not on the product that is made offshore.

Mr. LUTZ. Right. It is an additional unfortunate levy on U.S. manufacturing.

Senator DANFORTH. Now, the punch line, which has not exactly been hidden from you, is that my own preference is that we move toward a broad-based consumption tax. There are several varieties of them. I am not advocating, for the moment, one or another. I think that is less of a concern than the broad policy consideration of how we collect taxes, whatever the amount of taxes is in this country that we are going to collect, and that is a separate question, but whatever it is, how do we collect it?

Now, if we have a broad-based consumption tax, the effect of that is to subsidize exports and create a more equal competitive situation with our foreign competitors. If, on the other hand, we have a Btu tax, it is exact opposite of that. It is not in any way—it does not in any way burden our foreign competition. It does directly burden the production of automobiles in the United States.

Mr. LUTZ. And it increases the cost of those vehicles that we export to other parts of the world.

Senator DANFORTH. Exactly, so that if you add A and B, the value to competitors of a value-added tax and the disadvantage to us of a Btu tax, you come up with a net effect of moving toward a Btu tax versus a value-added tax or some other form of broad-based consumption tax, provided it is refundable, right?

Mr. LUTZ. I find myself agreeing totally with your analysis, sir, and have personally been an advocate of a VAT in the United States for a number of years.

Senator DANFORTH. Now, I think it will turn out—let us just suppose that it turns out that the cost of deciding on a Btu versus a value-added tax exceeds $1,000 a unit. Let us say it is $1,000 a unit. That would probably be around the ball park, would you not think?

Mr. LUTZ. For the added cost for the Btu tax.

Senator DANFORTH. In other words, if you take the disadvantage, the dollar value of the disadvantage of not having a value-added tax plus the added burden of a Btu tax, add them both together——

Mr. LUTZ. I would be hesitant to say yes. I am sure all three of us would be hesitant to say yes to any figure, sir, before having a look at some analysis.

Senator DANFORTH. If you could get us the analysis in short order I would appreciate it, because this really is a live issue that is coming before us. We are clearly going to have a significant increase in taxation.

The question is, how do we realize that? What is the most sensible way to realize it if we are really serious about competitiveness, and my hope is that we will avert the, I think pending disaster of the Btu tax and move toward a broad based consumption tax, but I would sure like some figures to help me make that argument.

Does anybody else have any comments?

Mr. HOGLUND. The Btu tax, the principal objective is to conserve energy and to conserve fuel.

Senator DANFORTH. And to raise revenue.

Mr. HOGLUND. But I think that I would agree with Mr. Lutz on your analysis, but in that discussion I think it is important that we not lose sight of the fact that the market forces really drive fuel consumption and we have got to somehow recognize that.

Senator DANFORTH. I have no doubt about it, and I would think that probably in any form of taxation there is at least some plus.

I mean, there is at least some little kernel of goodness in whatever method of raising taxes there is, but what I am saying is, if the point of an economic policy is to create jobs, if job creation is the point, then I think there is a very dramatic difference between having a broad-based consumption tax on one hand and having a Btu tax on the other hand.

The Btu tax may be better for energy consumption, the gasoline tax may be, as Mr. Lutz pointed, better yet, but if you are thinking jobs, if that is the whole point of an economic program, a broad based consumption tax is good for jobs, good for savings, good for investment, and a Btu tax creates competitive disadvantages for the United States.

Mr. LUTZ. And the broad-based consumption tax also helps, as you mentioned earlier, sir, our competitiveness in exports.

Senator DANFORTH. Right. So, if you could get me the numbers, I would appreciate it, and could all of you do that together?

Mr. HOGLUND. I think we can come up with a common estimate without running afoul of antitrust. [Laughter.]

The CHAIRMAN. Now with respect to the VAT in this line of questioning, in all seriousness, nothing is perhaps more valuable this morning than the wonderful statements that you folks have made in the education of this committee and the American public that is covering this, and the line of questioning of my distinguished colleague here from Missouri.

I testified—and I want to say this in support of a value added tax—5 years ago before Senator Danforth's Finance Committee, because we were going from a $100 to $200 billion deficits. We already were at $300 billion and I knew we were headed to $400 billion. And it has been going up, up and away and at this minute we are headed to $450 billion.

To bring it even down to $200 billion, which they are trying to do, cannot be done with spending cuts. You can cut out the domes-

tic government, the Congress, the courts, the Presidency, Agriculture, Department of Commerce, the Departments, cut out domestic discretionary spending and you still do not just cut spending, you just eliminated what they are talking about. And you have still got a $200 billion deficit.

And I was attesting to a value-added tax because we needed to get this Government on a pay-as-you-go basis. My interest costs are eating me alive. The spending cuts in the present proposals before both budget committees, the spending cuts are $18 billion for next year. My interest costs are going up $23 billion, so I have not gotten anywhere.

So, Lester Thurow said, back at that particular time, he said, "Under the rules of international trade, GATT, the industrialized country that does not have a VAT is stupid." That was the word he used.

So, we are getting on the same frequency there and I wish he would send me a copy of that same—give it and provide it for the community as well as Senator Danforth. Otherwise, let us get on the promotion of dumping. I want those figures also correlated by the three of you, if you do not mind.

Specifically, everybody is talking about protectionism, protectionism, protectionism, what we in essence should be doing as a government is opening the doors of free trade, not subsidizing the protectionism of the competition.

Our adversary, trading adversaries or partners, if you will, they come right in and as they sell that article from Tokyo, we are the only country that in order to determine a dumping margin, trying to compare what the car is selling for in Tokyo and what it is selling for here in Washington. All the GATT countries, all of the industrialized countries, only add, of course, the cost of insurance and freight of getting the car here.

We add, thereupon, we add the promotional costs, the advertising costs, the administrative costs on the one hand, under that *Smith-Corona* case; and then under the *Timken* case, the profits.

So, there is another—if there is a 15- to 20-percent disadvantage with that value-added tax to international trade to our deficit and the balance of trade, there is an equal another 10 to 15 percent with the way we treat dumping.

I will be specific. They finally found it because I wanted to test my memory, January 1990. And this is quoting Fortune magazine, talking about the Infiniti or whatever they call this thing, Infiniti.

But Nissan gets high marks for its arresting ad campaign which shunned hackneyed product shots for mood-setting images of rocks, sea gulls, and water. Marketing consumption say the ads have drawn attention and created a fresh image. The campaign cost $60 million, about $2,500 for every Q45 Nissan expects to sell in 1990. Nissan does not expect any profits from Infiniti for 5 years.

Mr. LUTZ. They have not been disappointed. [Laughter.]

The CHAIRMAN. They have not been disappointed. You are exactly right. Now who is paying that $60 million? You are. This audience is. The taxpayers of the United States are subsidizing the protectionism of Japan. It is just unheard of. So, let us factor that one in so the American public—I have told them long ago—I knew, because I was into another thing where Toyota Cressida sold for

$21,500 that sold in downtown Japan $31,500. That is last year sometime.

I said, "If I could buy one of your Ford Taurus for $8,000 under cost, under price, man I would get in it too and say, 'what a wonderful car.'" Now even without that, they have gotten into it and said, "what a wonderful car." And it is the leading seller.

So, we have been, as a government, putting you folks at a tremendous disadvantage with all kinds of requirements relative to trust and fuel and this and that and report the next thing and regulations and what have you. And then you get out on the floor of the Congress and they run around, well, we have got to get them off the golf course, get them off the golf course.

They have got to get more competitive. More competitive—the whole time we have the most competitive industrial work in the world.

Mr. Dorgan, I yield to you.

Senator DORGAN. Mr. Chairman, thank you very much. I appreciate the testimony of the panel. I have been at another hearing all morning. I have read the testimony that you submitted.

And I might say that I agree substantially with the previous two Senators' discussion of the VAT tax. I think it is long overdue that we evaluate a different form of taxation that would make us more competitive.

But I would say to the three representatives of the auto industry, there will be people, particularly the more intellectually muscle-bound thinkers in this town, who the minute you leave will say, well, there they were, the crybabies came to Congress again and we are talking about the need for more protection.

There are people who immediately react to testimony. Mr. Pestillo, especially yours, because you focused on the competition from Japan. And they say, what they are talking about is they need protection. This big industry that is cutting on their workers and losing tons of money and paying their executives lots of money, what they are asking from Congress is a special deal.

Well, you know, I am no big fan of big companies that cannot make their way. It seems to me that if the rules are fair and you lose, that is tough luck. That is the way the market works.

If the rules are not fair and you lose, then you ought to expect that the Government, especially in the area of international trade, will stand up and stop being this quivering mountain of jello when we enter trade talks and decide that we should expect our allies to treat us just as we treat them.

And I have never seen a set of trade talks that our trade negotiators could not lose within the first week. They just show up and lose. We are supposed to be shrewd Yankee traders. That is our history.

And yet I look at GATT, I look at NAFTA. You look around the world and what we have done for the last decade and it has been like Hari Krishna chants out here on the street, about free trade, free trade, free trade. It is totally irrelevant.

Free trade does not mean a damn thing to anybody. You can take any country you wish and completely eliminate the tariffs on trade going both ways and hold up a flag and said you have accomplished

free trade. And you have accomplished exactly nothing, exactly nothing.

What is important is have you accomplished a system of exchange between those countries that represents a fair set of rules? And that means fair trade. And again the muscle-bound thinkers who write about this in this town will say, "Yeah, that is a code. Mr. Hollings, all he does is speak in codes because he is a protectionist. That is a code for protectionism which does not advance this country's interest," they say.

Well, let me just—having said all that, count me as a protectionist. Do I want to put up a wall and keep anything out? No, I want everything to come in. I want the American consumer to have the widest possible choice of every conceivable good produced anywhere in this country.

But I want—when we send out people and negotiate trade agreements to put on the American jersey and sit at a table and decide they are representing American economic interests, and if they do not want to do that, then we will find somebody else the jersey will fit.

I am just flat sick and tired of seeing trade negotiators fear that someone will call them a protectionist, for God's sake. Everybody that they are negotiating with, I assume, is sitting at the same table believing they are protecting the economic interests of Japan, the economic interests of Germany, the economic interests of France. I would like ours to decide they want to protect our economic interests, not by closing our borders but by opening them wide and then insisting other countries treat us in a reciprocal manner.

So, I understand, having listened to the chairman, that it is an order to be passionate about some of these things now and then. And having said all that, let me ask you just a couple of quick questions.

Mr. Lutz, you focused on health issues——

Mr. LUTZ. Yes, sir.

Senator DORGAN [continuing]. Health care. I am curious—the questioning that Mr. Danforth did about the Btu tax. I understand full well the Btu tax is going to affect everybody. It is not, in my judgment, for some environment concern. It is purely revenue driven that some hope will have some advantageous conservation and environmental consequences.

But make no mistake, it is a revenue-driven tax. The Btu tax will clearly affect you. How would you assess the impact of something like the Btu tax as being proposed vis-a-vis the health costs that you face in your industry? Is it minuscule?

I mean, are we worrying about a mouse compared to an elephant here?

Mr. LUTZ. Well, without having really looked at any hard data of the effect of the Btu tax and we had promised the chairman and Senator Danforth that we would collectively try to get an estimate on that—but I suspect health care cost is so overwhelming that if we had to pick the priorities of what we would like to see worked on, clearly health care costs is the No. 1 burden that we face.

As we said, we are at about $1,100 per vehicle. We are $500 over a Japanese vehicle. We are $600 over a Japanese transplant and there are all kinds of reasons.

It is the fact that there is a lot of unnecessary, nonvalue-added cost in our total health care system. And it is also the fact that we have this hodge-podge of private plans, Government plans, no plans, Medicaid and Medicare that the care really costs more than the Government provides. So, it is shifted to the large corporations.

And, of course, you have got the fact that many Americans have no coverage at all. And when they come to a hospital, care is provided, but that cost is shifted to us.

Senator DORGAN. Can you put this is a form of two cars, though, two cars sitting in front of us, one produced in your plant in this country——

Mr. LUTZ. Well, sure.

Senator DORGAN [continuing]. One produced in Japan. How much health care is in the U.S. car versus the Japan car?

Mr. LUTZ. In a Ford Taurus or a new Chrysler LH, you are looking at $1,100 of the cost roughly. It is actually $1,086 of the cost is health care.

In the equivalent Toyota Camry out of their Kentucky plant, it would be $500 for a $600 difference.

Senator DORGAN. So, you are saying that if we did everything else right, even if we had trade negotiators who could win and at least create fair rules and everything else represented some semblance of fairness, we lost about $500 a vehicle just on the health issue?

Mr. LUTZ. Absolutely correct, sir.

Mr. HOGLUND. And it is growing at a faster rate than any other cost component that we have in the vehicle.

Senator DORGAN. The reason I am asking the question——

Mr. LUTZ. It is growing exponentially.

Senator DORGAN [continuing]. The reason I asked the question, Mr. Danforth is correct that the Btu tax will impact you. But it seems to me—I mean, that is going to impact everybody. It seems to me——

Mr. LUTZ. No, except the importers. That is the problem with it.

Senator DORGAN. No, the importers of products. We are going to impose a Btu tax on the import of energy, I might add. But you are correct.

Mr. HOGLUND. You would agree with the Senator, though, that if you had a question of solving health care versus the Btu tax——

Mr. LUTZ. Solve health care, if I have to pick one.

Senator DORGAN. From what I understand your testimony says, the three of you, that we have got unfair trade rules that we have to address. Because you cannot be expected to compete and compete in the right way and in a successful and productive way unless the rules are fair.

And No. 2, that part of the major problem here is we have got to fix our health care system, because when you factor in the cost of health care per car, you are at such a tremendous financial disadvantage competitively that it just does not work. And I think that is a message that we need to underscore.

Let me ask you one other question. This morning in the paper, I believe it was this morning, it said, U.S. banks have reported record profits, record profits in their history, 80 percent above last year.

If you look at a couple of hundred years of history in this country, there has always been, over decades, a wrestling match between those who produce and those who finance production. And for a decade or two, those who finance production win. And then it swings back and those who produce have the upper hand.

I do not know where we are at the moment historically. But why would it be that banks are now reporting record profits while you are losing billions of dollars?

Mr. LUTZ. Well, in the first place, I am not familiar with the article you have just read, but I would speculate that the reason the bank profits are up is because they have also gone through a very rocky period in the last 4 or 5 years and have made drastic reductions in their costs.

I know that many of them have modernized, have scaled back unprofitable operations, have taken huge writeoffs for bad loans and have gone through a period of near collapse for a lot of the banking system. And they have emerged out the other end unquestionably much leaner and much more cost- effective than they were in the past.

And we should not forget, one of their prime competitors is on the ropes, and that is the Japanese banking system, which 2 or 3 years ago looked, during the bubble economy, looked like it was going to be all conquering and literally steam roller the remaining U.S. banks into the ground. That Japanese banking system is now retrenching.

And I suppose when your No. 1 international competitor is on the ropes, it provides you some scope for improved profitability. I certainly wish them luck, because I think in the long term none of the three of us, can really attain our goals without an effective and healthy U.S. banking system.

Senator DORGAN. Well, they are doing fine according——

Mr. LUTZ. I sure do not begrudge them any profitability. Now, as far as our profitability is concerned, it is mixed. General Motors is going through a painful restructuring which I think is going to have them come out the other end of the tunnel in a couple of years as a very powerful lean and effective company.

They are going through what Chrysler went through 3 years ago. We started earlier, so we are coming out first. Ford is, I am sure, in the process of making further cost improvements and revenue improvements in its North American operation.

But in the case of Chrysler, I am pleased to say that we were profitable to the tune of $745 million last year. I would never describe our financial situation as satisfactory. But I think we are the model of what is going to happen to the rest of the U.S. industry. I think if we are given a fair shake and given reasonable regulation, not given protectionism but given a level playing field, I think we are in the process of becoming the world's most competitive automobile industry.

I think right now already our costs are below those of many Japanese companies. And the proof of it is if you look at the price of

Japanese vehicles. Even with dumping margins, they are still much higher than ours.

Mr. HOGLUND. And probably all European vehicles.

Mr. LUTZ. The Europeans for sure. And so we are in the process of developing a world class competitive industry with great quality. We just need to be not, as you said, sir, not treated preferentially but not lumbered with unnecessary burdens either.

Senator DORGAN. Let me ask one additional question that relates to the value-added tax. It seems to me, we have created a tax system in this country where we have said if you create a job, the act of creating a job is going to give us the opportunity to clothes-hang onto that job an employment-based tax system, and when you create the job, we are going to attach to it Federal unemployment tax, State unemployment tax, workman's compensation, health insurance tax, the social security tax, so we attach a whole labyrinth of taxes to the act of creating a job.

We say to you, on the other hand, when you are a capital-intensive industry, if you buy a machine, rather than hire a person, we will give you a deal. We would like to give you a little tax break if you get the machine; we would like to impose an enormous tax burden if you hire the working, living, breathing human being.

Now, I am wondering—and I do not know what our competitors do, and the Joint Economic Committee is doing a little evaluation of that for me. One of the reasons I would like to see a value-added tax is we could use a broader base consumption tax to replace what I think is an enormously burdensome set of payroll taxes. We are saying in this country, and it is interesting, we are saying the recession is over—that is what the Wall Street Journal said yesterday—the recession is over, but we do not see many jobs being created.

Well, what on earth is that? The recession is over, but we do not see many jobs being created. The whole issue is are we going to provide jobs for this country to move ahead. And it seems to me that there is a tremendous disincentive at the moment to the act of creating new jobs. Our tax system says, you do it, we are going to stick you with some enormous obligations.

I am not suggesting we should not have payroll taxes, but I am suggesting using them, as we have done throughout the eighties especially, by latching ever-increasing burdens, particularly in social security, using them that way, I think, is a tremendous disincentive to the act of job creation. And I think a value added tax could be used in a very successful way to try to stimulate the creation of new jobs by eliminating some of the disincentives that we now face with the current level of the payroll tax.

And I wanted to mention that that is another reason that the chairman, who has for a long, long time been talking about the value-added tax, I think, is developing more and more support here in Washington to discuss it. And that is just one reason, the job issue.

Mr. LUTZ. There may well be some merit to that, because undeniably, there is not only cost but huge complexity in all of the transfer payments that go along with creating a job. But the other wonderful thing about a broad-based consumption tax or a VAT is that we always worry about, if a recovery being fueled by investment or

if a recovery is being fueled by consumption. And when will the rise in consumption translate into added corporate profits and added jobs, which, in turn, will improve tax revenues.

The wonderful thing about a consumption-based tax is added tax revenue is generated as increased consumption happens. There is an immediate effect. You do not have to wait until corporations make profits or until individuals make additional income, the effect is immediate. As consumption goes up, so do tax revenues.

It is really an ideal form of taxation.

Senator DORGAN. Mr. Chairman, thank you very much.

The CHAIRMAN. Very good. Thank you, Senator Dorgan.

The reason we do not have those jobs, from this vantage point, is twofold. One, of course, has been the deficit, the debt. And the other is the lack of a competitive trade policy. Over here on the deficit and debt, the first thing I did this morning as the Government was go down at 8 o'clock and borrow $1 billion just to keep the doors open.

Everyday, except Sunday, this year, I will be borrowing a billion and adding it to the debt, just to pay the interest, or carrying charges, not for Government. When you pay your individual income taxes here next month, 61 percent of what you pay goes for waste, for interest cost, no Government, just the past profligacy of Government.

So, we know about that problem. But the reason the jobs still have not gone up is we have exported our industrial backbone, in large measure, because industry itself has played and competed with and played off the White House versus the people's representatives to Congress. It has been years to get you folks up here.

Now, I just cannot thank you enough for appearing here this morning, because the American people and this committee can begin to get educated as to how we really have come down here, standing for free trade, trying to open up the doors of opportunity and the market for free trade. I really, in essence, have been subsidizing the protectionism of my competition. It just cannot be stated any more plainly than that.

And as an appearance today, compared, for example, nothing more demeaning than going to Tokyo—it was not the President's stomach upset, it was the executives from the automobile industry trailing along like beggars, "Buy some automobile parts, buy some automobiles, be fair." That is nonsense. Nobody is fair in business—they are competitive. They are competitive in business. And you do not beg. That is demeaning to the Japanese.

What you are really saying is, "Look, we beat you and then we rebuilt you with the Marshall Plan, so you owe us something." Oh, no, not nationhood. Lord Acton, years ago, said Britain has no permanent friends, no permanent enemies, it only has permanent interests. Japan is looking after its economic interests and its working. And, once again, you do not bash it. If I were the Emperor, I would run it the same way. They are taking over the world market.

What is wrong is us. And you have got to come to your Government here and say, let us start enforcing these laws. Do not wait on the administration to study it for that special relationship, so that some of these diplomats there can get on TV and kudos and

bow and scrape, and then us go with agreements. They have not lived up to the semiconductor, they are not going to live up to your automobile parts agreement.

So, let us quit travelling to Japan. Let us come here and start working together as you are working here this morning and get this country moving.

Like a three-legged stool, our foreign policy, our sustenance as a nation, one leg of military strength, that is the strong; the leg of a nation is its values, that is very strong; but the third leg, the economic leg is fractured and about to fall. And we are in desperate problems and desperate trouble in this country. And a good one-half of that problem—you are the most important part to this economy—technologically, employeewise and paywise. All the good-paying jobs now that you have had, what, those who have lost their jobs in the eighties, still a third of them have been unable to find another job.

Seventy-three percent, we just had that, 73 percent of that age group between 18 and 24 cannot find a job or, if they can, they cannot find a job out of poverty. It is just not trade and it is just not taxes. It is this whole society.

If I had one misgiving about the Clinton program, it is just not far enough, but he does not feel that the environment, that the people are educated enough to understand and absorb what we have just got to do. If we were a governor or a mayor you could not print money. You would haul back and say let us take this budget for next year, and let us start cutting and everything else like that, but we keep on going because people really think you can do it with spending cuts. If you eliminated the government.

Still, I do not want to get back into that, but I only make these comments to emphasize the importance of your appearance here this morning. Get us those facts and figures on not only the VAT and its implication, but the exporter's sales price offset policy in dumping, which subsidizes the salaries, which subsidizes the television advertising, which subsidizes the promotional cost and administrative costs and everything else of my competition. And the American taxpayers are paying for it. And when I raise a question they say, "Oh, you are protectionist, you want to start a trade war."

I will make one final comment on that. We had a wonderful friend here that we still miss very, very badly, Senator John Heinz of Pennsylvania. And we made it together, but he made it in a more poignant fashion, Smoot-Hawley, do not listen to that trash. Smoot-Hawley did not cause the crash. Smoot-Hawley occurred 8 to 9 months after the crash in October 1930. The crash was in October 1929 and Smoot-Hawley passed in June 1930.

And it only affected less than 1 percent of the GNP, and within 3 years after Cordell Hull, with reciprocal free trade, competitive free trade, we built immediately back up. We have been in a veritable trade war now for the past 25 or 30 years, and they are using their governments, and we unilaterally disarm, with talks about fair and level fields. That is the lingo that these lawyers for the Japanese have put out. And we pick up their lingo whenever they—do not worry about getting fair and do not worry about level, just get competitive.

I might pay way more for this cup of coffee than you would pay. That is market forces. And when you let the market forces control; namely, that part of your Government that requires certain rules for you, then you have got to at least enforce the violation of those rules by your competition or you are gone goslings.

And you cannot wait on the White House and the special relationship. If you are going down that path, you just cannot tell them. We have tried that for 30 years, just telling them. But they know there is no backup, there is no meat to it. They are just a few crybaby Senators over there that are whining and whining, but do not worry about, we have got a special relationship, and if we can put it off again for another four years, to another administration, then there it will be.

I thank you on behalf of the committee very, very much. We will keep the record open for further questions.

The committee will be in recess, subject to the call of the chair.

[Whereupon, at 12:25 p.m., the hearing was adjourned.]

○

ISBN 0-16-046735-7

9 780160 467356

90000